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Haifa	4:19 p.m.	5:21 p.m.

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Weinberger goes, Carlucci named

WASHINGTON (AFP). — President Reagan yesterday announced the resignation of Defence Secretary Caspar Weinberger and named National Security Adviser Frank Carlucci to succeed him.

"Courage, constancy, loyalty, together with uncommon brilliance, decisiveness and determination, these are the qualities that Cap Weinberger has brought not only to the Defence Department, but to all the positions that he's held in service to our nation," Reagan said.

Tears were in Weinberger's eyes as he stood to the president's right

during the White House rose garden ceremony, to which several dozen guests had been invited.

Reagan promoted army Lt.-Gen. Colin Powell, the number two man on the National Security Council staff, to succeed Carlucci. Powell became the first black to hold the post.

In bidding a warm farewell to Weinberger, 70, Reagan compared the seven-year cabinet veteran to former British prime minister Winston Churchill and praised him for his role in strengthening and streamlining the U.S. armed forces. The

Pentagon budget is around \$300 billion a year and the U.S. now has more than two million armed forces members on active duty.

Like Churchill, the president said, Weinberger is "not afraid to take chances when the ideals and principles he cherishes are challenged."

"When he was sworn in, not only was the government spending too little for America's defence, but too often what it did spend was wasted" on such things as "\$400-hammers

(Continued on Page 3)



U.S. President Ronald Reagan yesterday announces the resignation of Secretary of Defence Caspar Weinberger (left) and the appointment of Frank Carlucci (right) as his successor. (Reuters)

IAI to go ahead with Lavi avionics

By HIRSH GOODMAN
Post Defence Correspondent

Israel Aircraft Industries has decided to develop the cancelled Lavi fighter's avionics package. The development, including the building of the third Lavi prototype (B3), will take four years and cost around \$85 million.

IAI officials feel that despite the cancellation of the Lavi project, the sophisticated avionics package developed for the fighter is highly marketable. One contract for tens of millions of dollars has already been signed with foreign customers.

IAI's decision is based on several factors: the Lavi's avionics — its radar, self-protection and fly-by-wire systems — are among the most sophisticated in the world, and have been recognized as such by many potential clients, including the Americans; the package fits both the upgrading and development programmes now on the drawing boards in several countries, and will thus have real export potential; over \$100 million has already been spent on avionics development that would be wasted if the programme were not continued.

The project's timetable has the B3's fuselage and wings arriving from Grumman in the U.S. at the end of this year, and the "black boxes" being lab tested in early 1988 and installed in the B3 test aircraft in the spring of the same year. The first flight is scheduled for February 1989.

The most controversial part of the programme continues to be the building of the B3 prototype at a cost of \$25 million, but this, according to IAI, is the cheapest available option. Converting either the Lavi 1 or 2 prototypes used to test the plane's aerodynamic performance, it was found, would cost more than building a new frame specifically designed to test the integration of the combined avionics package.

As the officials pointed out yesterday, the company, despite having to dismiss 3,000 employees in the wake of the Lavi cancellation, remains a billion dollar concern with 16,000 highly trained workers involved in a wide range of civilian and military production programmes. While the Lavi cancellation was a blow to the company, it was far from a mortal one, and, as some are now saying, it may have been a blessing in disguise.

In order to reorganize and maintain work for its 16,000 employees, IAI will have to increase its exports by an estimated \$200 million this coming year. To do that, the officials say, IAI will have to be able to compete for more maintenance work for American forces in Europe and in three fields in the U.S.: civilian and military maintenance, specifically engine refurbishment; joint developments with the American armed forces; and the sale of IAI-manufactured products to U.S. civilian and military markets. At present IAI business in the U.S. totals around \$200 million a year, and it is hoped to increase this by \$100 million.

Plunging dollar hits record lows, Israel officials surprised

Post Economic Staff and Agencies

The dollar fell to an all-time low yesterday despite West German and Swiss interest rate cuts aimed at easing recessionary pressures and soothing the world's chaotic financial markets.

It closed in London at 1.6735 Deutschmarks — down almost four pfennigs from Wednesday's finish.

Later in New York the dollar was trading at DM1.6750, and 135.05 yen. Sterling also went up sharply and reached \$1.78.

The fall came after U.S. Treasury Secretary James Baker, in an interview in yesterday's *Wall Street Journal*, stressed the need for the Reagan administration to avoid a recession, even at the risk of a falling dollar.

Bank of Israel and Treasury officials were taken by surprise by the speed of the fall of the dollar. But they continued holding to their position against a devaluation of the shekel. "The worst thing we could do now would be to jump the gun. We must let things settle down first, and then consider what to do," senior officials at the central bank said last night.

But the officials admitted that the central bank and the Finance Minis-

try are concerned that a flight of foreign exchange might force decision-makers to devalue, contrary to their intentions.

White House spokesman Martin Fitzwater said there was concern about a possible misunderstanding of Baker's comments.

"The U.S. remains committed to the Louvre agreement and will continue cooperating closely with its G-7 partners to foster exchange rate stability," Fitzwater said.

"We certainly want to avoid a recession. We believe that we will do that. The markets will stabilize and an appropriate degree of confidence will return," he said.

He also reaffirmed that Baker spoke for the administration on economic policy.

Meanwhile, White House and congressional negotiators, seeking to ease market concern about the U.S. budget deficit, said they have agreed to cut it by \$24 billion, but remain divided over how to do it.

No accord was near in the talks, now in their second week, as pressure mounted for an agreement to lower the deficit which was widely viewed as a factor in the record 508-point drop in the Dow Industrial Average on Wall Street on October 19.

Wall Street stocks scored big gains yesterday as a steep fall in interest rates and prime rate cuts by major U.S. banks helped the market

to one of its best days since the October 19 crash.

The Dow average climbed 40.12 points to 1,985.41, according to early, unofficial figures. Advancing issues led declines by three to one on the New York Stock Exchange, on volume of 226 million shares. In London, the stock exchange confirmed its early morning recovery yesterday, with the Financial Times Industrial share index closing 32.3 points higher at 1,287.9, and the "footsie" 100-share index gaining 30.7 points to 1,638.8.

In Tokyo, share prices continued to fall yesterday morning, damped by the U.S. dollar's plunge.

In Germany, the Commerzbank 60-share index fell over 2 per cent at mid-session to a two-year low of 1,396.6.

Britain's chancellor of the exchequer, Nigel Lawson, pinned the blame for the global stock market crash squarely on the U.S.

Lawson on Wednesday night questioned the Reagan administration's political will to cut the U.S. budget deficit.

In a speech to bankers and businessmen, Lawson said Reagan must act rapidly to slash the huge deficit — the root cause of the world market crisis.

Time was running out, he said, and Reagan's political and economic credibility was on the line.

Spain puts off Sharon visit 'indefinitely'

By BENNY MORRIS
Post Diplomatic Correspondent

Spain has "indefinitely postponed" the scheduled official visit to Madrid of Israeli Prime Minister Ariel Sharon, which was to have begun on November 16.

It is understood that Spain took the decision in deference to strong Arab pressures brought to bear in advance of next week's Arab summit meeting in Amman.

Sources in Jerusalem said that the decision was taken by "pro-Arab officials" in Madrid who "took advantage" of the absence of Spanish Prime Minister Felipe Gonzalez and Foreign Minister Francisco Fernandez Ordonez, who are visiting Latin America.

The president of the Israel Chamber of Commerce, Dan Glickman, who was to have headed the delegation of some 35 industrialists and importers accompanying Sharon, last night criticized the Spanish decision as "submission to Arab pressures."

Economic sources in Jerusalem said the Spanish decision will "considerably damage the economic relations between the two countries, which have recently begun to develop, and it will cloud our political relations as well. We regard this step as a grave."

Foreign Ministry officials in Jerusalem said last night that "as far as we know, the visit is still on." The Spanish decision, communicated to the Israeli Embassy in Madrid, had not reached Jerusalem.

The visit of Sharon and the delegation was aimed at promoting trade, and a number of commercial and scientific research agreements were to have been signed.

KH outpatients still shut out

By JUDY SIEGEL
Post Science and Health Reporter

Outpatient clinics at all seven Kupat Holim Clalit general hospitals will remain closed next week, but health fund doctors will "not intensify" sanctions, it was agreed last night.

At a meeting with Histadrut Secretary-General Yisrael Kessar, the doctors repeated their demands for "reasonable overtime" pay for a second shift. Kessar reportedly said he supported their demands but noted that "the Treasury is making trouble for me and won't let us give you substantial increases." The physicians were unhappy, but they acceded to Kessar's request not to launch an all-out hospital strike.

Outpatient clinics will be closed at Kaplan Hospital in Rehovot, Beilinson and Hasharon in Petah Tikva, Carmel in Haifa, Soroka in Beersheba, Ha'emek in Afula and Meir in Kfar Sava, as they have been since Tuesday.

In addition, two or three health fund hospitals will be run on a reduced "Shabbat schedule" next week. This means no non-emergency operations will be performed and outpatient clinics will be closed.

On Sunday, Beilinson Hospital, the Geha mental hospital and the Beit Rivka geriatric hospital will be targeted for sanctions. On Monday, the Shalvata mental hospital, the Beit Levinstein rehabilitation hospital and Kaplan will be on a reduced schedule. The Hatzfeldt geriatric hospital and Hasharon Hospital will be affected on Tuesday, and Soroka and Carmel on Wednesday. On Thursday, Meir and Ha'emek Hospitals will be affected.

The doctors' representatives will appear on Sunday before the central committee of the Histadrut (which controls the health fund), to voice their demands.

Health fund patients who need emergency treatment should go to the hospital emergency rooms.

Elimelech Rimalt, former Liberal leader, dies at 80

PETAH TIKVA (Itim). — Former Liberal Party chairman Elimelech Rimalt died last night of a heart attack at Beilinson Hospital here.

Rimalt, who along with Menachem Begin was a co-architect of

Jews in areas nearing 58,000

Post Economic Staff

The number of Jewish settlers in the administered territories has increased by 21,000 since the national unity government was formed three years ago. From some 36,900 settlers at the end of 1984, the number is expected to increase to over 58,000 by the end of the year, a rise of 57 per cent.

Figures released yesterday by the Central Bureau of Statistics show that this year the number of Jews settling in the territories decreased to about 5,000, from 7,300 in 1986 and 9,200 in 1985.

In 1986, the Jewish population in Jerusalem grew by only 700 as the result of internal migration. Of the approximately 8,700 residents who left Jerusalem, about 28 per cent went to West Bank settlements such as Ma'ale Adumim and Givat Ze'ev.

Times: Syria can't expect Saudi aid

LONDON. — Syria will be told at Sunday's Arab Summit meeting in Amman that it can no longer expect aid from Saudi Arabia or Kuwait if it continues to support Iran in the Gulf War. (Summit story - page 3)

The *Times* reported yesterday that Kuwait has decided to stop its annual \$50 million grant to Damascus if President Hafez Assad refuses to change his pro-Iranian stance at the Amman summit, and it is understood that Saudi Arabia's \$450m. annual payment will also be suspended.

Herzog to address joint U.S. Congress Tuesday

By JUDY SIEGEL

President Herzog will address a joint meeting of the U.S. Congress on Tuesday during a visit connected with Israel's 40th anniversary celebrations. Herzog wound up his official visit to Denmark yesterday, and leaves on Monday for the first state visit to the U.S. by an Israeli chief of state.

During his week-long tour he will be given a 21-gun salute at the White House, visit the UN, receive an honorary doctorate at Brandeis

University, and meet with newspaper editors and publishers.

The fate of Israelis who are prisoners of war or missing in action, as well as the plight of Soviet, Syrian and Ethiopian Jews, will be raised by Herzog during his meetings.

The visit is to symbolize the close state of American-Israeli relations. When U.S. Ambassador Thomas Pickering presented his credentials at Beit Hanassi last year he told Herzog that an invitation for a state visit was being planned as part of

Israel's anniversary celebrations.

Herzog, accompanied by his wife Aura, a few aides and Foreign Ministry officials, will be greeted on arrival by Secretary of State George Shultz. Herzog's meeting with Reagan will take place on Tuesday morning, and will be followed by a luncheon hosted by Shultz and attended by 250 people. After lunch Herzog will address Congress, another first for an Israeli chief of state. A state dinner at the White House will follow.

Gaza Strip will number 1m. people by 2000

By JOEL GREENBERG
Jerusalem Post Reporter

Israel's refugee rehabilitation programme in the Gaza Strip may be creating new slums, and overcrowding in its towns will lead to increased juvenile crime and nationalist tensions, according to a new report on the Gaza Strip in the year 2000.

The report, written by a team of Israeli experts, predicts a continued population boom and severe housing shortages coupled with dwindling supplies of drinking water and shrinking agricultural land. It says the refugee population will become

the dominant force for socio-economic change and a reservoir of local leadership.

Copies of the report, written by experts in the fields of planning, architecture, economics and sociology, are understood to have reached the Defence Ministry, where they are reportedly being read with interest.

The report says the Gaza Strip's population, currently about 633,000 in an area of 365 square kilometres (one of the highest population densities in the world), could reach 1,053,000 by the year 2000, including 550,000 refugees. About 60 per

cent of today's population is under 19 years old, and 77 per cent is under 29.

Out of the Gaza Strip's total work force in the year 2000, 91,100 persons will seek work in Israel, as compared with 41,700 who work in Israel today (about half the work force).

The area already suffers from an acute housing shortage, the report says. Since new construction lags far behind the growth of new families, there are crowded slums and shantytowns in the cities, where health conditions are poor. Such conditions could be a cause of "serious

social deviations" in three to four years, including increased juvenile delinquency, more illegal construction and rising nationalist tensions.

The report critiques the Civil Administration's refugee rehabilitation programme, under which refugees are encouraged to move out of their camps and build new homes on adjacent plots of state land.

The report says that at the current pace of rehabilitation, the project will never be completed, because the camps' natural population increase far outstrips the rate of rehabilitation. From 1972 to the end of

(Continued on Back Page)

Our beloved

KEITH BEECHER

has left us forever.

The funeral will be held today, Friday, November 6, 1987 at 2:30 p.m. at the Kfar Shmaryahu cemetery.

The Bereaved:
Wife — Haya Beecher
Daughters — Nurit and Peter Kaufmann
and Lia Beecher
and grandchildren

Shiva at daughter's residence (Kaufmann family),
15 Spinoza St., Herzliya Pituah.

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The weather at major Swissair destinations

City	Min.	Max.	Weather
AMSTERDAM	2	8	Cloudy
BRUSSELS	1	10	Cloudy
BIRMINGHAM	1	10	Cloudy
CHICAGO	13	20	Clear
COPENHAGEN	7	13	Cloudy
FRANKFURT	7	13	Cloudy
GENEVA	6	10	Cloudy
HELSINKI	2	8	Cloudy
HONG KONG	20	28	Cloudy
JERUSALEM	18	28	Cloudy
LONDON	9	13	Cloudy
MADRID	11	17	Cloudy
MONTREAL	10	18	Cloudy
NEW YORK	13	20	Cloudy
OSLO	0	3	Cloudy
PARIS	8	13	Cloudy
RIO DE JANEIRO	24	31	Cloudy
SAO PAULO	18	24	Cloudy
STOCKHOLM	1	7	Cloudy
TORONTO	13	20	Cloudy
VIENNA	2	8	Cloudy
ZURICH	3	9	Cloudy

*For the latest weather conditions contact Swissair.
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Cairo: 25 Jaffa St. Tel. 02-251570
Cairo: 25 Jaffa St. Tel. 02-251570

THE WEATHER

City	Yesterday's	Today's
Jerusalem	22	15
Colan	41	13-20
Nazareth	24	13-22
Safed	38	11-17
Haifa Port	69	11-21
Tiberias	51	23
Nazareth	67	20
Afula	10	17
Sharon	66	20
Tel Aviv	58	13-22
B-G Airport	60	10-22
Jericho	45	12-25
Gaza	69	14-22
Beersheba	63	11-21
Eilat	25	16-28

Colder weather blowing this way

By DAVID BAKER
For The Jerusalem Post
Unseasonably cooler temperatures, accompanied by strong winds, are expected in Jerusalem and the North this weekend. The weather station at Beit Dagan is predicting substantial amounts of rain today in Galilee and the Golan Heights, with light to moderate amounts in Jerusalem and the center of the country. The South will have occasional drops of rain.
Tomorrow will see a continuation of the chilly weather, but the rains and wind should taper off by the afternoon.

Belgrade weighs renewing ties

Post Diplomatic Correspondent
The Yugoslav leadership is studying the possibility of establishing low-level diplomatic relations with Israel, sources in Jerusalem said yesterday.
The sources were basing themselves on a conversation held this week, probably in a European capital, between senior Israeli and Yugoslav diplomats. The Yugoslav diplomat, it is understood, heard directly about the re-evaluation of relations with Israel from one of the Yugoslav leaders.
In the conversation, the Yugoslav diplomat reportedly expressed the hope that relations between the two countries will improve.
The sources in Jerusalem said that Israel does not intend to take any initiative in this respect. "We will wait and see what they do," they said. Israel's policy is not to woo "reluctant" countries, but to wait for concrete action by them.

Bomb found on Jerusalem mall

By ANDY COURT
For The Jerusalem Post
Police sappers safely detonated a bomb that was hidden in a biscuit box at the entrance to the Atara Cafe on Ben Yehuda Street in Jerusalem early yesterday morning.
The cafe's manager, Moshe Ziegler, found the bomb at the entrance to the cafe at about 5:45 a.m. It was inside a plastic bag, next to a large sack containing the cafe's daily provision of rolls, he said.
Ziegler examined the smaller bag and spotted electrical wires. He called the police, who closed off the Ben Yehuda Mall area and detonated the device in a nearby alley.

Correction
In the article on the Makhteshim chemical plant that appeared on Wednesday, the quote attributed to Interior Ministry district engineer Hadassa Eden should have read: "The existence of Makhteshim in Beersheba poses a potential hazard due to the possibility of unforeseen circumstances," and not as originally printed.
Further, it was not the intention of The Jerusalem Post to suggest that the injuries of five firefighters and a Makhteshim employee last week were caused by Makhteshim. The cause of their injuries has yet to be determined.

HOME NEWS

Lahad counters Hizbullah claims

By DAVID RUDGE
Jerusalem Post Reporter
METULLA. — South Lebanese Army commander Gen. Antoine Lahad yesterday blamed negligence by guards for the partial success of the Hizbullah attack on an SLA stronghold near Barshit village early Wednesday morning.

Lahad, speaking to reporters at this northern settlement, stressed, however, that contrary to the Hizbullah's claims, the SLA garrison repelled the attackers and did not abandon the position.
The SLA charged that the Iranian-backed gunmen had passed three Irish Unifil posts to launch the attack, without the international peacekeeping troops making an effort to intervene.
Two Irish soldiers were reportedly slightly wounded during the fighting. Originally, it was suspected that they were hit by SLA return fire.
But sources in South Lebanon maintained that the soldiers were wounded later in the morning when Irish troops launched a search for two missing colleagues who had reportedly hidden in their post overnight, after hearing the Hizbullah gunmen passing close by.
The two hideaways, apparently not immediately recognizing their colleagues who were looking for them, opened fire and slightly wounded two of them.

At his press conference, Lahad charged that Unifil refused to recognize the SLA, although Unifil commander Maj.-Gen. Gustav Hagglund and senior officers had met openly with leaders of Lebanese militias which were "no more legal than the SLA."
Overall, Unifil was faced with an impossible mission, he said. The international peacekeeping force could not fulfil its mandate because of the situation on the ground. It would be better, therefore, to concentrate the UN troops in "one or two positions, pending a new mandate or new assignment which they could fulfil," he said.
The SLA chief also revealed that he had stopped the release on humanitarian grounds of some of the prisoners in the El Khiyam detention camp. More than 250 people suspected or found guilty of terrorist acts against the SLA or the IDF are detained there.
Lahad said the decision was "related to negotiations over a possible exchange of prisoners for the Israeli navigator and SLA soldiers held by the Amal Shi'ite organization and other militia groups."
He nevertheless said he was sceptical about a positive outcome to the negotiations, because the other parties were controlled by foreign powers and could not make independent decisions.

Showers of stones in West Bank

By JOEL GREENBERG
Jerusalem Post Reporter
An IDF soldier was hurt by a stone hurled at an Egged bus yesterday near Tulkarm in the West Bank. One of the vehicle's windows was smashed. Troops closed off and searched the area.
Stones were also thrown at a bus near the Dehaishe refugee camp, but there were no casualties and no damage was done.

At Ein Beit el-Ma, protesters barricaded a nearby road and threw stones.
The IDF is to beef up its forces in the territories in anticipation of wider unrest and possible anti-Israeli attacks during the Arab summit in Amman, which opens on Sunday.
A grenade was thrown at a Border Police jeep near Tubas on Tuesday night, but it exploded without doing any damage.
In a separate development, a resident of the Maale Ephraim settlement, Eldad Gindler, 26, was held by police yesterday for allegedly driving through three gates in the fence along the Jordanian border on Wednesday, apparently in a fit of anger. Gindler reportedly drove into the fence after assaulting his estranged wife and their children in his home.

Arabs threaten general strike

By DAVID RUDGE
Jerusalem Post Reporter
SHFARAM. — Arab leaders yesterday decided to call a general strike if the government does not act to ease the plight of debt-ridden Arab local councils.
The decision was taken at a meeting here of the national committee of Arab local councils at the end of a warning strike which shut down municipal services in 48 Arab towns and villages yesterday and Wednesday.
The leaders are planning a car and truck convoy to Jerusalem on November 16, to be followed by a demonstration outside the Interior Ministry, where the council heads will symbolically hand in the keys to their offices.
Meanwhile, they have accepted an invitation to meet Ronni Milo, the deputy minister responsible for Arab affairs, next Thursday to discuss new proposals for tackling the financial crisis of the local councils.
"If the proposals prove to be worthwhile, we will call off the planned demonstration," said Ibrahim Nimr Hussein, chairman of the national committee of Arab local councils.
The councils have accumulated debts of around NIS 50 million and many have not paid their employees' salaries since September.

Two papers widen choice for observant

By JUDY SIEGEL
Jerusalem Post Reporter
An "old" newspaper with a new name and a "new" newspaper with an old name began this week to compete for readers among the ultra-Orthodox reading public.
A Solomonic decision by the Jerusalem District Court this week settled a dispute between the owners of the ultra-Orthodox weekly *Erev Shabbat* and its former editors, who were wrangling over ownership of the paper's name and following. As a result, a new, "politically more moderate, non-sensational religious paper" — according to its new editors — called *Erev Shabbat* appeared on the newsstands yesterday, alongside *Yom Hashishi*, a religious weekly with a new name, but the same staff and the more sensational style of the former *Erev Shabbat*.
The new *Erev Shabbat* was produced on four days' notice by Zvi Rosen, parliamentary correspondent of the Agudat Yisrael daily *Hamaadim*, with help from a new staff that includes religious Kol Yisrael employees who are out of work because of the Broadcasting Authority strike. The weekly, which was recently sold by The Jerusalem Post to the Atlas Distribution Company,

uses the same graphics, includes most of the same features that appeared previously in the old *Erev Shabbat*. Among the stories in this week's 28-page issue is a report of complaints by the Zionist religious parties that the Zionist Congress elections are "anti-religious," and one about Jonathan Pollard's becoming a "penitent Jew."
Rosen, an 18-year veteran of religious journalism, told *The Post* that he does "not intend to compete" with *Yom Hashishi*, and expects that observant Jews will buy both for their Shabbat reading. But he stated that his editorial line will be "more solid, moderate politically, appealing not only to the ultra-Orthodox, interesting and full of yiddishkeit."
Rosen said that he consulted with top rabbinical authorities, including the brother of the Gerer Rebbe, and received their blessings to go ahead with the new paper. Rosen, himself a Gerer hassid, said he went into Jerusalem's ultra-Orthodox Gusha quarter and was congratulated by readers who saw the new *Erev Shabbat* and were pleased that it was "interesting without attacking anyone."

Tolstoy ruffled again by court proceedings

By ERNIE MEYER
Jerusalem Post Reporter
Court president Dov Levin and defence witness Nikolai Tolstoy clashed early in yesterday's session of the Demjanjuk trial. Prosecutor Yona Blatman asked Tolstoy to read extracts from a history of the period showing that the Vlassov Army had not been formed in the summer of 1944, when Demjanjuk claimed to have joined it. Tolstoy refused to read the extracts, saying: "Why should I agree to have out-of-context quotations put in my mouth just because the prosecution wishes to get them into the protocol? I'm being used as a tool of the prosecution."

Levin told the witness angrily that it was his duty to do the prosecutor's bidding. But Tolstoy reacted by shaking his head violently in the direction of his counsel, Yoram Sheftel, as if asking him to intercede.
Judge Zvi Tal found it necessary to intervene and say soothingly: "You are not an instrument of the prosecution. You are here to help us get at the truth. Although read by you, the quote does not become your own. You must not get upset."
After this, Tolstoy gave in. The incident indicated Tolstoy's stiffened attitude following his near-walk-

out on Wednesday. Yesterday, too, he seemed to be ready to get up from his seat.
The date of the establishment of the Vlassov Army is an important element in the trial because Demjanjuk claimed in his alibi that, after 18 months in the Chelm PoW camp, he joined the Vlassov Army in the summer of 1944. This leaves open the question that, previous to this, he could well have been at Treblinka and that, after the camp closed in the autumn of 1943, he joined a Vlassov unit. In other words, his membership in the Vlassov Army would seem to be immaterial.
But this is not so. The Germans did not allow any ex-PoW war who had served as a concentration camp guard under the SS to join any other unit later on. They were afraid that these men might be taken prisoner or might otherwise talk about what they had seen at the camps. Their pay books carried a special endorsement to that effect. If Demjanjuk had been at Treblinka, he would not have been allowed to go over to Vlassov later. On the other hand, if it can be proved that he belonged to a Vlassov unit, that would seem to establish that he had never served as a camp guard.
(For the clarification of this point The Jerusalem Post is indebted to



Giitta Sereny, whose book *Into that Darkness* is the definitive work on the history of Treblinka.)
The prosecution also brought out the fact that in 1944 no *Ostruppen* (troops made up of prisoners taken on the Eastern front) were permanently stationed in the Reich, which included Austria. The Germans, in fact, had a contingency plan code-named *Walkure* for the suppression of any uprising by these troops. This contradicts Demjanjuk's claim that in the autumn of 1944 he was posted to a camp at Heuberg in Austria, where he guarded Russian generals of the various auxiliary forces.
Before the cross-examination ended, Levin had occasion to say that he took exception to some of the "cynical and sarcastic remarks" made by the witness.
Blatman, for his part, said he regretted if the witness had been offended by any of his questions, "al-

though we straightened this out later."
Sheftel started his re-direct questioning by saying to Tolstoy: "You have been asked whether you were disappointed by the defeat of the Nazis?"
Tolstoy: "I was 10 years old in 1945 and I remember the London Blitz very well. My uncle, the son of a Czarist officer, was a Spitfire pilot. I shared the general euphoria of victory then and I still do. In 1942 I wrote a letter to Hitler, in which my grandmother still has, in which I said: 'Dear Hitler, I hate you, love from Nikolai.'"
Sheftel: "Why did you lend your name to the Free Russia Association?"
Tolstoy: "Because I believe in freedom, a free press, a multi-party political system and a totally independent judiciary."
Sheftel asked several other questions designed to correct or counterbalance statements elicited from the witness by the prosecution.
Tolstoy's questioning ended with Levin routinely thanking the witness.
Nikolai Tolstoy did not apologize to the court for anything he had said. Levin at one stage had voiced the expectation that such regret would be expressed.



Children at an elementary school in Jerusalem's Har Nof neighbourhood crossing yesterday over the bridge that is the only exit from their school. The hand over the open trench says: caution buried electric cable below. (Jacqueline Arzi/Media)

Jewish media meet next week in J'lem

Jerusalem Post Reporter
Some 150 Jewish journalists from around the world will join 100 of their colleagues in Israel next week for the Second International Conference of the Jewish Media.
The conference, whose main topic is "Communication in the Electronic Era," is sponsored by the Information Department of the World Zionist Organization, the Govern-

Labour sticks with Lewinsky for WZO

Jerusalem Post Reporter
Labour leader Shimon Peres yesterday reaffirmed his party's support for Akiva Lewinsky as its candidate for chairman of the World Zionist Organization and the Jewish Agency, at a meeting of the party bureau in Tel Aviv.
Lewinsky, who is now WZO/Agency treasurer, was rejected as a candidate for chairman last week by the Diaspora funders in the agency. They acted in accordance with their right to "advise and consent" on candidates for top agency posts.
Peres said that, "at this stage, all of us must adhere to the decision of the party central committee," which nominated Lewinsky. Noting that the party was now engaged in a dispute with the funders over Lewinsky's candidacy, he said that this was no simple matter.

Anniversary of Sadat visit to bring Khalil here

Jerusalem Post Reporter
Dr. Mustapha Khalil, who was prime minister of Egypt at the time of President Sadat's historic visit to Jerusalem, will make a three-day visit to Israel this month, to mark the 10th anniversary of the event.
Khalil will meet cabinet ministers and address a luncheon in the Migdal Daniel Hotel in Herzliya Pituach. The other speakers will be Minister-without-Portfolio Ezer Weizman and US Ambassador Thomas Pickering.
Khalil will also give a lecture at Haifa University and hold a news conference.

New proposals from striking broadcasters

By GREEK FAY CASHMAN
Jerusalem Post Reporter
The public will have to put up with another weekend without radio or television. Negotiations between striking journalists and the Broadcasting Authority management, which were suspended on Wednesday night, were not renewed yesterday.
Both the Treasury and the IBA management were studying a new set of proposals from the journalists. Strike committee spokesman Zvi Goren declined to reveal any details. However, he said he was hopeful that the negotiations would be resumed today, or at the very latest tomorrow evening.
Meanwhile, a general meeting of the strikers has been called for next Monday. It is the third time in five weeks that IBA journalists have been summoned to a general meeting. At the first, on October 6, they voted to strike. At the second, there was only one voice raised against continuing the strike.
Though journalists are eager to get back to work, they are asking for assurances that the threat of mass sackings has been removed.

Women soldiers more willing to report harassment

By BRADLEY BURSTON
Jerusalem Post Reporter
BEERSHEBA. — Military Police detectives investigate between 20 and 30 cases of sexual harassment of women soldiers a year, according to the recently retired commander of the IDF's Women's Corps, Tat-Aluf (res.) Amira Dotan.
In an interview appearing in the *Beersheva v'HaNegev* weekly, Dotan said that the harassment ranges from "verbal improprieties" to officers forcing women soldiers to submit to sexual acts.
Dotan noted that women soldiers are increasingly willing to report incidents as violators have been brought to justice.
"We have gone all the way in prosecuting officers charged with harassment," she said.
Dotan said that the most common offences for which women are sent to military prison are absence without leave, theft from automatic banking machines, and divulging classified information.

To Harold Rothschild and Family
We express our profound condolences on the passing of
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We share your grief on the passing of your mother
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Sincere condolences on the death of
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The Family

Egyptian reconciliation seen for summit

BAHRAIN — Several Arab states are likely to restore diplomatic ties with Egypt after the Arab summit that opens on Sunday in Amman, diplomats in the region said yesterday.

The Arab League members meeting in the Jordanian capital will seek to forge a united front at the three-day summit, their first full-scale meet in five years, but internal disputes and conflicts over the Gulf war threaten to keep them divided. Few diplomatic observers see any chance of a breakthrough.

"Some Arab states, especially from the Gulf Cooperation Council (GCC), plan to resume ties with Egypt whether it is discussed at the Arab summit or not, said one senior Arab diplomat."

All Arab states except Somalia, Sudan and Oman cut diplomatic links with Egypt after Anwar Sadat signed the peace treaty with Israel in 1979. But relations have warmed under President Hosni Mubarak, who now receives envoys from almost all Arab states except headline critics Syria and Libya.

The Syrians and Libyans strongly oppose moves to re-admit Egypt to the Arab League, but Iranian threats to Gulf states have accelerated the improvement of ties between the GCC and Egypt, which has one of the strongest Arab armies.

"With normal ties we can have political and military cooperation with Egypt. Together we are stronger," said one GCC diplomat.

Egypt, a major arms supplier to Iraq in its war against non-Arab Iran, has vowed to implement an Arab defence pact and back GCC states if they are dragged into the Gulf conflict. The GCC groups Saudi Arabia, Kuwait, Bahrain, Qatar, Oman and the United Arab Emirates (UAE) and some member states have publicly called for resumption of diplomatic relations.

Diplomats said Bahrain, Kuwait and the UAE were ready to resume ties. Saudi Arabia would bless such a move, they said, but would most probably prefer to keep relations with Egypt on an informal basis to avoid further verbal attacks by Libya.

Libya said it would boycott the summit because it was called to protect U.S. interests in the Gulf and accused Saudi Arabia of financing U.S. "imperialist" attacks against Libya.

The diplomats said Iraq and Morocco were also keen to resume ties with Egypt.

"We have embassies in countries with diplomatic ties with Israel. We do not like it that there is an Israeli embassy in Cairo, but we have to be practical and pragmatic," an Arab diplomat said.

Jordan, Djibouti and the PLO have already resumed ties with Cairo, and PLO chairman Yasser Arafat holds regular talks with Mubarak to coordinate peace efforts in the Middle East.

Syria and Libya have in the past spearheaded an anti-Egypt front among the remaining 21 Arab league members but one diplomat said: "Now they stand alone."

"We all lost by severing ties," the diplomat said. "Egypt lost and the Arabs lost."

A Palestinian leader, who did not want to be quoted by name, said the upcoming Amman summit, "could either mark an Arab renaissance or a return to the dark ages of wars and defeats."

The summit was called because of concern that the seven-year-old Iran-Iraq war, already spilling over into Kuwait, will drag in other states of the oil-rich region.

King Hussein of Jordan, a staunch ally of Iraq, and other moderates

believe the Gulf war is overshadowing what they believe is the most important issue in the Middle East: finding a settlement to the Arab-Israeli conflict.

Before that problem can be tackled, the moderates believe, the Gulf war has to be brought to an end. They believe that isolating Iran would hasten that end.

Syria, Iran's main Arab ally, is expected to veto a Saudi-led campaign to impose collective Arab sanctions on Tehran following Iranian calls for the overthrow of the Saudi monarchy and missile attacks on Kuwait.

In the face of Syrian opposition, and the reluctance of some small Gulf states to antagonize Iran, that objective is unlikely to be realized in Amman.

Teheran maintains that Saudi troops fired on Iranian pilgrims in the holy Moslem city of Mecca in July. The Saudis say 402 pilgrims, including 275 Iranians, were killed in a stampede during illegal demonstrations staged by the Iranians.

At least nine Iranian missiles have hit Kuwait or its waters this year amid Iranian accusations the tiny Gulf state and Saudi Arabia actively aid Iraq's war efforts. (Reuters, AP)

Abducted Irish dentist gets fingers severed

DUBLIN (Reuters). — Irish kidnap victim, John O'Grady, was freed yesterday after a shootout between police and his captors, police sources said.

While in captivity the kidnappers had severed two of the Dublin dentist's fingers.

O'Grady, son-in-law of Irish millionaire Austin Darragh, was freed just as his family had decided to pay a new ransom demand of 1.5 million pounds.

Two policemen were injured, one seriously in the shootout in the Dublin suburb of Cabra. Although one member of the gang was also wounded he managed to escape with his accomplices in a hijacked car and police helicopters joined the hunt for them. One man was arrested at the house where the gun battle took place.

Justice Minister Gerry Collins told reporters, "This gang will be hunted down to the very end of the road."

Confirming reports that 38-year-old O'Grady had been maltreated, he said, "It will shock the nation. Mr. O'Grady had portions of the little fingers on each hand removed on Tuesday night."

O'Grady, kidnapped from his luxury Dublin home three weeks ago, was taken to a Dublin clinic for treatment. No ransom money had been exchanged, police sources said.

They believe that the gang is led by "the border fox," a renegade Irish nationalist guerrilla who is suspected of involvement in up to 30 murders.

The kidnappers' original target was O'Grady's father-in-law, who runs the drug-testing Institute of Pharmacology.

S. Africa releases Mandela colleague

JOHANNESBURG (AP). — The government yesterday announced the release of African National Congress (ANC) leader Govan Mbeki, a colleague of Nelson Mandela and a prisoner for 23 years.

Mbeki, 77, a former national chairman of the outlawed guerrilla movement, was one of eight ANC members, including Mandela, jailed for life following their 1964 convictions for sabotage.

Those prisoners, particularly Mandela, are still considered by many black South Africans as their legitimate political leaders.

Mbeki's release, first hinted at by the government in August, is likely to heighten speculation about Mandela's possible release.

The only white man convicted at the 1964 Rivonia sabotage trial, Denis Goldberg, was freed in 1985. He then left for Israel and has since moved to London.

Mbeki is the first of the seven black Rivonia defendants to be released. The prisoners service said Mbeki would be freed from the Robben Island prison off Cape Town, where he has been held since his conviction.

The first public sign that Mbeki might be released came on August 13, when President P.W. Botha said he had told the minister of justice to consider Mbeki's case.

In the same speech, Botha said the cases of imprisoned black leaders would be given periodic consideration based on reports of government advisory bodies.

Big bellyache in Shanghai

PEKING. (Reuters). — Infected food served by a restaurant in Shanghai struck down 762 diners with food poisoning in one day last week, a Chinese newspaper said yesterday.

The East Wind Restaurant has been partially closed and its managers ordered to visit poisoning victims to apologise, the Shanghai Evening News reported. It said 20 of the victims were in serious condition but were recovering in hospital and food hygiene inspectors were investigating.

Chilean blackout

SANTIAGO (AP). — A massive power blackout left millions of Chileans in the dark late Wednesday after leftist guerrillas blew up electricity pylons serving the capital and several other cities.

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Chirac plays down reports of Iran arms scandal

PARIS (Reuters). — French Prime Minister Jacques Chirac tried to cool an arms-for-Iran scandal yesterday after an angry Socialist Party accused his conservative government of trying to smear President Francois Mitterrand.

The scandal centres on accusations that the French Socialist Party pocketed a share of profits from illegal arms sales to Iran while it was in government.

The Socialists have denied the accusations, published six months before presidential elections.

Interviewed in the Brittany port of Brest, where he went to inspect recent storm damage, Chirac said scandals always tended to be exaggerated in a democracy before election time. It was one of the system's weaknesses, he deplored it.

"It is inevitable in a democracy that things get inflated by the media."

This must be controlled, because it does not create a very good image and exaggerations in the presentation often cast a slur all round," Chirac said. "In pre-electoral periods especially there is the exploitation of affairs more or less founded on fact, some of which fade away very soon afterwards," he added.

The conservatives ousted the Socialists from office last year, but Socialist Mitterrand remains president. Chirac is expected to challenge him in the April, 1988 election.

His remarks, though couched in general terms, appeared calculated to take the heat out of a dispute which flared up on Wednesday with publication of a leaked report linking Mitterrand to the scandal.

The report by armed forces Inspector-General Jean-Francois Barba said an aide to former Social-

ist defence minister Charles Hernu helped conceal the export of 500,000 artillery shells to Iran over three years by the Luchaire arms company.

It said Luchaire in return rewarded a Socialist Party organization with contributions of about \$400,000 and that, though Mitterrand was told of suspicions about the arms traffic in 1984, the exports continued until 1986.

Mitterrand has so far maintained his customary dignified silence, but conservative deputies yesterday said only he could shed light on the affair at this stage.

Socialist Party leaders said the leaking of the Barba file to the conservative *Figaro* newspaper and the government's subsequent declassification of its contents were blatant bids to damage Mitterrand's image as an upright statesman.



French former defence minister Charles Hernu tells reporters in Lyon on Wednesday that he "never ordered any arms sales to Iran." (AFP)

Coin expected to fetch \$10m.

GENEVA (Reuters). — A pure gold Islamic coin is expected to bring \$10 million at a private auction in Geneva next week — setting a world record for a coin, the Habsburg, Feldman auction house said yesterday.

The 17th-century gold coin is also believed to be the world's largest. It weighs 12 kg and is 21 centimetres in diameter.

It will go under the hammer at Geneva's newest auction house on Monday evening with another, smaller Islamic coin of the same period valued at \$4 million.

Arab museums and private collectors of Islamic art are expected to have the most interest in acquiring the lovely 22-carat coins inscribed with Arabic and Persian verses.

"We expect the larger coin to bring \$10 million, but there is no reserve (minimum) price," said David Feldman, chief executive of the auction house formed this year. "We've been in touch with several clients," he added. "But we don't expect that many bidders."

Feldman expected the successful bidder to be either a wealthy individual, someone connected to Islamic culture or an Arab museum, or a private coin collector.

The coins were minted by two Mogul emperors as ceremonial gifts to reward high officials.

The larger coin, known as the "One thousand mohurs," was minted for Emperor Jahangir of Delhi in 1613. (Mohur literally means something stamped). Feldman said the gold itself was worth \$500,000.

In the auction catalogue, Michael Bates, curator of Islamic coins at the American Numismatic Society (New York), wrote: "This is certainly not only the largest gold coin in the world today, but likely to be as large as any gold coin ever made. It is also one of the most beautiful in design."

The smaller coin, the "One hundred mohurs," was minted in 1639 by Jahangir's son, Shah Jahan — who built the Taj Mahal at Agra for his favourite wife.

Strike shuts down Lebanon

BEIRUT. — War-ravaged Lebanon came to a standstill yesterday with even militia-run ports shut down, as Christians and Moslems joined forces in a nationwide strike to protest the country's worst economic crisis.

Government offices, banks, schools, shops, restaurants, petrol stations and other businesses closed in Beirut and other cities and towns as the open-ended strike got underway.

Beirut's airport, the country's only civil aviation gateway, and seaport also closed. Only bakeries, pharmacies and hospitals were exempt.

Work also came to a standstill at a half-dozen seaports run by rival militias along Lebanon's 210-kilometre coastline.

The strike climaxed months of protests by Christians and Moslems who, faced with increasing hardship, have set aside their differences to demand that their leaders do the same and tackle the crisis.

"The strike will continue for weeks and months if need be until our demands are met," said GCLU chairman Antoine Bishara.

The GCLU, which represents 60 labour unions, is demanding action to halt the rapid slide of the Lebanese pound, which has caused the country's gravest economic crisis since independence from France in 1943.

Two bombs exploded in Syrian-occupied West Beirut yesterday, wounding at least one person and causing material damage, police said.

The sticks of dynamite went off within minutes in streets in the Tal-el al-Khayat and Sanayeh residential areas, shattering windows in nearby buildings, they said. One person was slightly injured by flying glass.

Syrian troops immediately rushed to the scene and patrolled the adjacent streets.

More than 130 bombings have been reported in Beirut's mainly Moslem western sector since 7,000 Syrian troops deployed there in February to restore law and order. (AP, Reuters)



Adrian Hopkins, owner of the Eksund. (AFP)

Shipowner unknowingly set UK on track of huge IRA arms haul

JERUSALEM Post Correspondent LONDON. — British security officials were aware of an impending IRA arms smuggling attempt a full eight months before Dublin businessman Adrian Hopkins's ship Eksund set sail from Valetta with 150-tons of arms for the IRA, it emerged yesterday.

It was Hopkins himself who inadvertently tipped off the authorities, writing to the British Embassy in Dublin in February with a request for information on British ship brokers. The embassy's commercial department supplied him with a list of brokers, and although Hopkins was not known to have contacts with the IRA, various past business dealings

had attracted attention, and his activities were monitored from then on.

Hopkins flew several times to Sweden last spring to negotiate the purchase of the Eksund, and finally signed ownership papers on July 28. Confirmation that the ship merited continued surveillance was provided when the security authorities learned that maps of Irish and Libyan waters had been purchased.

The ship was seized on Saturday off the coast of Brittany with the arms on board and the French authorities arrested five crewmen. Irish security sources are convinced that the arms cargo was loaded in Libyan waters.

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For further details please contact the Dayan Center, Tel. 03-620100 by January 1, 1988

[Aster. 00161.15]

Cinematheque

November 6 - November 11

Fri. 14:00 Out of Africa, Dir. Sidney Pollack; 22:00 Amadeus, Dir. Federico Fellini.

Sat. 17:30 The Karate Kid, Dir. John A. Avildsen; 19:45 Gay Deceit, Dir. Rouben Mamoulian; 19:30 Three Penny Opera, Dir. G.W. Pabst; 21:30 Sunset Boulevard, Dir. Billy Wilder; 21:30 Tenne de Soiree, Dir. Bertrand Blier.

Sun. 19:00 Three Sisters and a Brother, Dir. Haimon Levin; 21:30 An Outlaw and his Wife, Dir. Victor Sjöström; 21:30 Men of Flowers, Dir. Paul Cox.

Mon. 19:00 Water/Ganges, Dir. Visva-anandhan; 21:30 Love Me Tonight, Dir. Rouben Mamoulian; 21:30 Méliès le Démon de la Pluie, Dir. Joe Santisi.

Tue. 16:00 Baby — Secret of the Lost Legend, Dir. B.W.L. Norton; 19:00

Remember My Name, Dir. Alan Rudolph; 19:30 His Lordship's Last Will, Dir. Victor Sjöström; 21:30 Stage 17, Dir. Billy Wilder; 21:30 Water/Ganges, Dir. Visva-anandhan.

Wed. 18:30 Animations Programme From FRG; 19:00 Bad Luck, Dir. Andrzej Munk; 21:00 A) The Dancer, Dir. Leslie Pearce; B) The Man on the Flying Trapeze, Dir. Clyde Bruckman; 21:30 Escalier C., Dir. Jean Charles Tacchella.

Thur. 19:00 My Life as a Dog, Dir. Lasse Hallström; 21:30 The Menace of Sordani, Dir. Victor Sjöström; 21:30 Recent Short Israeli Films; 24:00 Roadie, Dir. Alan Rudolph.

Fri. 14:00 Rumble Fish, Dir. Francis Coppola; 22:00 A Room With a View, Dir. James Ivory.

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Arab vote may be secret strength of NRP

By YA'ACOV FRIEDLER
Jerusalem Post Reporter

NIR ETZION. — "The Shas Party has taken over our National Religious Party line on religion, and the Tebiya movement the Greater Israel idea. So what is our appeal to the electorate?"

The question, posed by Mussa Ayoubi, the deputy mayor of Beit She'an who is a member of the National Religious Party, was not answered by party leaders, cabinet members Ze'ev Hammar and Yosef Shapira, at a conference in this NRP-affiliated village near Atlit on Wednesday night.

But the answer was: "Woo the Arab voters."

Of about 60 NRP local and reli-

gious council members who were here at the end of a two-day workshop on influencing public opinion, 18 were Arabs and three Druse. Yet the NRP constitution doesn't allow them to be party members, because they are not Jewish.

But they were highly visible, being the only bareheaded men, except for one with a keffiyeh, among wearers of knitted skullcaps.

They must have been something of an eye-opener for Shapira, who still has to overcome the furor he created last week with his reported proposal that \$20,000 be given to every Arab who is willing to emigrate.

Shapira and Hammar, who had previously traded such epithets as "cannibal," "Kahanist" and "vampire," surprised the assembly by turning up as scheduled and sitting side by side on the dais. But they only acknowledged each other's presence when NRP MK Avner Shaki got them to shake hands.

The moderator dashed expectations when he ruled that the "emigration issue" would not be allowed on the agenda. But Shapira read a personal statement blaming the press for "misrepresenting" his ideas.

"I want to hold a serious debate on them with our Arab supporters at a place of their choosing."

"But I want to assure [everyone] that I and the NRP sanctify the Jewish principle that every human being is created in the image [of God] and

as such must be respected, regardless of his religion."

Moreover, he insisted, "I never raised the idea of a transfer and even in the hidden chambers of our hearts we harbour no such thought."

"This is not just election propaganda, but our true and sincere attitude," he said.

The NRP member on the Umm el-Fahm town council, Tewfik Haj Awad, who is also director of the NRP's Arab Department, immediately proposed that the discussion be held in his city.

He told *The Jerusalem Post* that at the two-day workshop Jewish and Arab speakers had strongly criticized Shapira's reported offer.

"We Arabs are the NRP's most

reliable voters," he said, having given the party 6,800 votes in the last Knesset elections. This is 10 per cent of the total of 68,000 votes. The party has 120,000 card-carrying Jewish members. Most of the Arab supporters are Moslems, 300 of them active members, in 137 villages.

"We want the party constitution amended to allow Arabs to become full members." He estimated that over 1,000 would join at once.

Hammar stressed that Arabs and Druse were "true and trusted" supporters and "real partners" in the NRP's "fight for full equality and rights for all communities in Israel."

"The Arabs are an important potential for strengthening the NRP," he said.

Bayern coach Jupp Heynckes said: "In the final analysis, we were very lucky. Towards the end, we were really shaking, and I can understand Neuchâtel's bitterness."

The victory put Bayern into the draw for the quarter-finals to be played next month alongside Bordeaux, Glasgow Rangers, Belgian champions Anderlecht, PSV Eindhoven of the Netherlands and the 1986 winners of the premier trophy, Steaua Bucharest of Romania.

French champions Bordeaux admitted their winning goal should have been disallowed as they joined a powerful line-up for the last eight of the Champions' Cup.

Bordeaux were also embarrassed by their progress as Lillestrom of Norway were angered when French international Jean-Marc Ferreri admitted he had handled before scoring the only goal of the tie in the 41st minute.

For more impressive were the performances of Glasgow Rangers, who held Gornik Zabrze 1-1 in Poland for a 4-2 aggregate win; Anderlecht, who completed a 3-1 triumph over Sparta Prague with a 1-0 second leg victory; and PSV Eindhoven, who beat Rapid Vienna 2-0 for a 4-1 total over two legs.

Steaua's 2-0 win in Cyprus over Omonia Nicosia, giving them a 5-1 aggregate scoreline, was no more than expected.

Rangers' goal in Poland came from a penalty by their Scottish international striker Ally McCoist, who had been brought down himself. The goal was his third in the competition and 26th in all this season, and went some way to wiping out worries which had accompanied the squad from Scotland following police charges against three of the team for offences

during a match with city rivals Celtic last month.

There were equally few surprises or high scoring ties in the Cup-Winners' Cup. In the top tie, holders Ajax beat Hamburg 2-0 with goals from veteran international midfielder Arnold Mühren and Henk Meijer for a 3-0 aggregate scoreline.

Juventus went crashing out of the UEFA Cup on away goals after beating Fiorentina 3-0 in the first leg, but losing 2-0 on aggregate.

In Oporto, Porto (Portugal) lost 1-2 to Real Madrid before 85,000 spectators. Real Madrid was 4-2 on aggregate.

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SOCCER

Bayern scrape by

LONDON (Reuters). — Two goals in the final three minutes saved last season's beaten finalists Bayern Munich from an unexpectedly early European Cup exit on Wednesday.

The West German champions, trailing Swiss counterparts Neuchâtel 2-1 from the first leg, had to wait for goals from Hans Pflugler, after 89 minutes, and Juergen Wegmann, in injury time, to enable them to scramble into the quarter-finals 3-2 on aggregate.

Bayern coach Jupp Heynckes said: "In the final analysis, we were very lucky. Towards the end, we were really shaking, and I can understand Neuchâtel's bitterness."

The victory put Bayern into the draw for the quarter-finals to be played next month alongside Bordeaux, Glasgow Rangers, Belgian champions Anderlecht, PSV Eindhoven of the Netherlands and the 1986 winners of the premier trophy, Steaua Bucharest of Romania.

French champions Bordeaux admitted their winning goal should have been disallowed as they joined a powerful line-up for the last eight of the Champions' Cup.

Bordeaux were also embarrassed by their progress as Lillestrom of Norway were angered when French international Jean-Marc Ferreri admitted he had handled before scoring the only goal of the tie in the 41st minute.

For more impressive were the performances of Glasgow Rangers, who held Gornik Zabrze 1-1 in Poland for a 4-2 aggregate win; Anderlecht, who completed a 3-1 triumph over Sparta Prague with a 1-0 second leg victory; and PSV Eindhoven, who beat Rapid Vienna 2-0 for a 4-1 total over two legs.

Steaua's 2-0 win in Cyprus over Omonia Nicosia, giving them a 5-1 aggregate scoreline, was no more than expected.

Rangers' goal in Poland came from a penalty by their Scottish international striker Ally McCoist, who had been brought down himself. The goal was his third in the competition and 26th in all this season, and went some way to wiping out worries which had accompanied the squad from Scotland following police charges against three of the team for offences

during a match with city rivals Celtic last month.

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Eli rampant

EH Ohana continues merrily on his scoring spree for his Belgian club Mechelen. After notching up a hat-trick last week the live wire striker from Betar Jerusalem grabbed two more goals and was a key factor in Mechelen's 2-0 defeat of St. Mirren in Scotland, which earned them a place in the Cup-Winners' Cup quarter-finals.

A goal in each half by Ohana was enough after the two sides had drawn 0-0 in the first leg in Belgium a fortnight ago.

Ronnie Rosenthal's club FC Bruges have also advanced, and are in the last 16 of the UEFA Cup, thanks to a splendid come-from-behind effort at home against Yugoslavia's Red Star. After trailing 3-1 from the first leg, Bruges won handily 4-0, Rosenthal coming on midway through the second half and helping to preserve that critical lead when Bruges were already 3-0 up.

Another Israeli has a prospect of playing in a quarter-final tie. Avi Cohen's Glasgow Rangers went through in the Champions Cup, courtesy of a 1-1 draw away in Poland protecting a 3-1 first leg advantage. Cohen was on the reserves' bench.

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THE LANDAU REPORT, written by a commission headed by one of Israel's most respected judges, raises a number of legal issues which are likely to cause serious controversy in the legal community, both in Israel and abroad.

The commission should be applauded for its decision to publish part of its report and for the courageous manner in which it exposed in this part of the report that for 16 years General Security Service interrogators have used force and pressure to extract information and confessions from detainees and have then systematically perjured themselves by denying such methods of investigation in court.

It is extremely difficult to take a stand on the whole approach of the commission, as many of the most sensitive issues are, one must assume, dealt with in the secret report. Thus, for example, the commission does not reveal what methods were used by the service in the past and whether some of the serious allegations which have been made from time to time were in fact justified.

Nor does the published part of the report deal with the guidelines given to the service regarding acceptable interrogation methods in the future. The reluctance of the commission to make public this part of its report is, of course, understandable, but at the same time it ensures that any discussion of the report must be based only on a partial reading. This should in no way prevent public discussion of the findings of the commission and its recommendations.

IN THIS article I intend to deal with a number of recommendations of the report which I regard as most problematical. I shall not be dealing with problematical findings of the commission (such as the dismissal out of hand of the allegation that some judges were fully aware of the game being played).

1. **Recommendation not to press charges.** The systematic use of force and pressure, followed by false evidence denying such methods, had been carried out in the Security Service since 1971 with the full knowledge and approval of the heads of the service, and was only revealed in the wake of the Bus 300 and Nafsu affairs. The commission was convinced that although some degree of force and pressure is still used in interrogations, there is an understanding in the service that in

THERE ARE two important aspects emanating from last week's report into the activities of the Shin Bet: the use of force to extract confessions from suspects, and the practice of Shin Bet interrogators lying to the courts, as a matter of course, on the means used to extract these confessions. The two should not be confused.

These inexcusable offences, though, could be excused if the methods were legitimate. In extracting confessions from security suspects, however, is a whole different sphere — and one clouded with grey areas.

That violence has been used in extracting confessions is hardly a secret. Nearly all of us have served in the Israeli army through several wars and most of us have witnessed, with our own eyes, instances where information has been extracted from prisoners under less-than-savoury circumstances.

Indeed, the Landau report explicitly states that, under certain (vague) circumstances, the use of force in extracting information from terrorists is a necessary evil. But under what circumstances, and to what limits may force be legitimately taken? When is that fine red line which separates police practices in a democracy from authoritarian abuse of power crossed?

To try and set rigid guidelines — to devise a handbook on "permissible" torture that can be referred to by interrogators at various stages of investigation — is a futile endeavour. Every circumstance is different; each person being questioned is an individual with different strengths and weaknesses.

One can explicitly forbid some of

David Kretzmer warns of the dangers of condoning certain GSS practices

Legal double standards

no circumstances are staff members permitted to lie in court.

In executing the above system, members of the Security Service clearly committed perjury and possibly other serious criminal offences, such as assault. Some charges against Security Service staff are at present under investigation in the wake of the Nafsu case. Yet the commission recommends that legal charges not be pressed against any of the people involved in the systematic perjury and use of force.

It gives two reasons for this recommendation: 1) that the interrogators were not acting for their own personal gain, but in order to further what they sincerely believed to

be a primary state interest; 2) that conduct of criminal trials against members of the service would seriously undermine the ongoing essential work of the service in combating hostile activities.

Both of these grounds are highly problematical. The first could be seen to apply to a whole host of offences, such as the crimes committed by members of the Jewish underground. The second would seem to mean that if the illegal actions of staff members in an essential state service are widespread enough, they will be immune from criminal proceedings.

The commission itself intimates that its recommendation in this matter does not bind the attorney-gen-

eral. As an independent statutory authority granted discretion under law, the attorney-general is bound to make the final decision whether to press charges himself (though he should consult the government before doing so) and he is free to reject the commission's recommendation.

The commission is especially critical of the legal advisers of the Security Service who were party to the intentional misleading of the courts. While the general recommendation of the commission not to press criminal proceedings applies to the legal advisers, as much as to any of the others involved, the commission makes no mention of the possibility of disciplinary proceedings against these lawyers by the Israel Bar. It seems that the findings of the commission should spur the appropriate organs of the Israel Bar to initiate disciplinary action.

2. **Licence to use force.** The commission deals at length with the problems of interrogating terrorist suspects. It accepts the view of the Security Service that such interrogations cannot be carried out unless the interrogators are allowed to use a certain degree of pressure and even some physical force. The commission rejects, on grounds of moral principle, the use of torture or methods which are degrading to human dignity, but expresses the view that the less serious means of force and pressure may be justified in court and will not lead to inadmissibility of confessions extracted.

There are two main reasons for objecting to the use of force in extracting confessions. The first, emphasized by the commission, is the objection, on moral grounds, to torture or other methods of force or pressure which affront human dignity. The second, circumvented by the commission, is that force and other means of pressure (such as depriving a person of sleep, apparently condoned by the commission) may lead an innocent person to confess to a crime he never committed.

The attitude of the commission to this second reason may be gleaned from two comments in the report. First, the commission explains that the Security Service itself has an interest in making sure that the persons who confess really did do the things they confess to. Conviction of an innocent person may be regarded as a failure on the part of the service as it generally means that the guilty person is still at large. Second, the commission states that "an investi-

gation must not be initiated against a person, unless information exists which presents a reasonable basis [to the Security Service] for the suspicion that the person is involved in some way in hostile terrorist activity, or in political subversion which is illegal under Israeli law or the law which applies in the territories."

The ineluctable conclusion is that if the Security Service honestly believes that a person is involved in hostile activities it may initiate an investigation in the course of which it may then use some degree of force or pressure; because of this force or pressure the person being investigated may confess to a crime and this confession will then be accepted in court. Does this not mean that in actual fact the real decision of guilt may be made by the Security Service and not by the court? If the service is convinced of guilt it will extract a confession and if a confession exists a court will convict. Perhaps the most serious implications of the commission's report is the abrogation of the duty of the court, deciding on guilt or innocence, to the investigating authority.

Furthermore, in the first part of its report the commission informs us that of the tens of thousands of investigations that the Security Service has carried out in the last 20 years, 50 per cent of the persons interrogated were charged, while the vast majority of the others were released after investigation. If the Security Service is allowed, as a matter of course, to use forms of pressure and physical force in its investigations then many innocent persons are likely to be on the receiving end.

3. **Extracting information as opposed to extracting confessions.** The use of terror in contemporary society has opened up a debate on the legitimacy of using force and even torture in order to extract information about planned terrorist attacks. In its report the commission refers to some of the views expressed in this debate which justify, on moral grounds, the use of force when it is the only realistic way of obtaining information needed to frustrate terrorist attacks. The commission subscribes to these views, though it places limits on the types of force and pressure which may be used, ruling out the legitimacy of torture or undermining of human dignity.

It does not, however, distinguish between the situation in which force is used in order to prevent future

planned attacks, and the situation in which it is used in order to extract a confession of a crime already committed. Whether one accepts the moral arguments in favour of the use of force in the former situation or not, it is quite clear that a very different argument is needed in order to justify use of force in the latter situation. The commission fails to provide such an argument.

4. **Special rules for subversive activities.** The commission stresses that the licence to use force and pressure is granted only in cases of "hostile terrorist activity or political subversion which is illegal under the law in Israel or the territories." In including subversive political activity in the range of activities the prevention of which justify the use of pressure and physical force, the commission once again extends beyond its limits the moral argument for use of force in the prevention of serious danger to loss of life. According to the Military Order cited by the commission itself (Order 101), subversive political activity includes the displaying of flags and political symbols. Is there any justification for condoning use of psychological pressure and physical force in interrogating persons suspected of such activities?

Another question is why the use of such methods of interrogation should be confined to hostile terrorist activities and political subversion. The reply offered by the commission is that it is almost impossible to carry out investigations of these offences by using other "normal methods." The reason is that the suspects have the support of the local population and have been trained to withstand ordinary investigations.

But is it so clear that the rationale behind the commission's approach in this matter cannot be used in other contexts? Our society is faced with a number of serious crime problems. Take the drug question. The police face tremendous difficulties in gathering enough evidence to convict the major drug dealers and are generally faced with total refusal from people to give evidence against them. In many cases the police have sound intelligence information about central dealers. Why shouldn't they be allowed to arrest them and extract confessions by use of force and pressure? And why stop at drugs?

5. **Political implications.** Over the

last 20 years we have become used to the fact that we are a society operating a dual value system. One set of values, the democratic one, operates on one side of the Green Line; another set of values, far from democratic, operates on the other side.

The Landau Report carries this one step further. It condones and institutionalizes methods of interrogation totally rejected by the normal Israeli legal system, when it concerns the other side. It also positively recommends the use of administrative arrests, restrictions and deportations in cases which can't be brought to court. The attempt of the commission to link this purely to the nature of the PLO and other Palestinian organizations is far too simplistic an approach to the issue.

Since the Six Day War, we have been ruling, under a regime of belligerent occupation, a population who have no political rights but do have national aspirations of their own and owe neither legal nor moral allegiance to the State of Israel.

THE REAL question posed by the Landau Report is whether the systematic use of force, followed for 16 years by lying, and now officially condoned as legitimate in the circumstances, was not an inevitable outcome of that situation.

There are those who are not perturbed by the implications for Israeli society of our double standard. Others are no doubt complacent about it. More are probably fatalistic, taking the stand that although the position is unpleasant, "we have no choice." Whatever stand one takes, though, it is essential that one realizes what price we are having to pay, by maintaining the present situation.

We have become a society which officially condones pressure and physical force by law enforcement authorities and in which a commission which includes two judges recommends use of administrative arrests and deportations. It is, of course, conceivable that we will be able to compartmentalize our own legal system and continue to maintain the double standard. Is it not equally conceivable, however, that in another 16 years we will wake up to realize that methods which were only meant to be used on others are now being used on ourselves?

The writer teaches constitutional law at the Hebrew University.



Shin Bet can't go by the book

Hirsh Goodman

THE more repulsive methods of interrogation, but that does not rule out blows, deprivation or the many other "soft" techniques of breaking the will of an uncooperative suspect. Moreover, a blow can be a slap, or a fist in the face; deprivation can be no meat for lunch, or six days without sleep. There is no limit to the loose ends that even a well-intentioned and clearly thought-out statute of limitations would leave untied.

AS OPPOSED to the images conjured up by "interrogation" and "torture," probably most of the cases being referred to in the Landau report pertain to situations in the field, not dark horror chambers reeking of blood, sweat and tears. The interrogators were working, more often than not, in a framework of real time, trying to ascertain whether a captured terrorist had left more explosives on a bus due to blow up any minute, or whether he had accomplices who could still be loose in the field.

The infamous Bus 300 incident is a case in point. Two of the three terrorists who had hijacked the bus were captured alive after being severely stunned by blows to the head. It was imperative for the security forces involved to know whether the two had, perhaps, secreted satchels of explosives or grenades in the dark interior of the bus. When persistent questioning to try and find out was met with the sole response "Allah Akhbar" (God is great), the blows, threats of intimidation and physical abuse intensified in kind.

The Bus 300 incident is illustrative of many similar situations that have happened in the past, of many moments in our not-too-distant history where terrorists have taken over apartments, been found planting car bombs or preparing booby traps in public places. The crux of the issue, however, is not what happens at the field level, where it is understood that immediacy is essential. The real issue is to what extent violence is used as a means of interrogation in

the controlled environment of a detention centre, where the need for information may be less immediate, though ultimately not less vital.

It is totally naive to expect the security services to do their often ugly job of keeping us safe with kid gloves. They can't.

There are persons who have been arrested for plotting heinous acts of terror, doctors, pharmacists, teachers and engineers — all men of high calibre, high intelligence and great dedication to their cause. They operated networks, trained operatives, supplied weapons, money and ideology in sophisticated ways, crossing international frontiers with impunity, sometimes with the active cooperation of Arab governments or sympathetic officials in other parts of the world.

These are men who are not easily broken, and will not lightly reveal the tremendous amount of operational knowledge they have in their heads. They are used to living with danger, intrigue, intimidation and constant threat of arrest. They have had time and experience to prepare themselves for that inevitable moment when they will be confronted by the enemy, be it in the field or in the interrogation chamber.

There are also those lower-level operatives captured either pre-emptively or in the field, who refuse to talk for different reasons — sometimes pride, sometimes dedication. They, too, have knowledge that is vital in putting together a comprehensive picture of enemy capabilities and preventing future attacks, knowledge that is not going to be extracted without the use of means that would make most of us cringe.



Moshe Landau, who headed the commission. (Rubinger)

Those being questioned go on their missions fully prepared to die — sometimes with suicide belts attached to their bodies — and are not particularly intimidated by conventional methods consistent with the norms of a democratic society.

THE LANDAU report concentrates on the fact that violence was used to extract confessions from persons convicted of security crimes. In truth, the confessions are but a side product of the interrogation, with knowledge of operational intelligence being the prime need. One supposes that the classified section of the report deals with this aspect of the problem. Those doing the questioning care less about an air-tight case in court than a good intelligence picture and, one sus-

pects, consider the law more of an impediment than a goal.

How a balance is found between the needs of law versus the requirements of security is not a question the Landau commission can answer. What will ultimately set the balance is not rule books of behaviour, but the integrity of those in charge of our secret service and their relationship with the elected government of this country.

The real lesson of the Landau report is not that our secret service has used violence and even torture in its fight against terror, but that there has been no integrity in the service these past 16 years during which three former Shin Bet heads consistently lied to not only the courts, but to Israel's prime ministers as well. Whether the deeper involvement

of the prime minister's military secretary, or Shin Bet accountability to some ministerial forum, will restore the ministerial integrity is an open question. After all, one cannot but reflect on the time coincidence between the documented decline of the integrity of our secret service and the expanded role the organization has had to assume with the conquest of Judea, Samaria and Gaza.

Occupation necessarily both increases the scope of the organization's activities and complicates the nature of its task. It also dictated a huge increase in manpower; it is no secret that some of those who entered the service were not among the best and the brightest, but rather those who spoke Arabic, had some military experience and could quickly be deployed in the battle against indigenous terror.

The service, in consequence, expanded from a small, tightly-knit, super-secret organization, to something of an army of agents faced with a dramatically increased threat not bound by the same unspoken and unwritten rules of behaviour understood by what was essentially an old-boy's network of people from similar backgrounds.

Therefore, the old rules cannot govern any longer. Times have changed and our secret service has changed, and new thought is going to have to be given as to how to deal with the problem. But one thing has not changed and no new guidelines can change it: Physical means will continue to be a fundamental element of interrogation, as indeed the Landau commission has recognized and, ironically legitimized.

The writer is The Post's defence correspondent.

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JOEL GREENBERG looks at the seemingly insoluble problem posed by using a military force and its methods to pacify a turbulent civilian area -- the West Bank and Gaza.

The sniper rifle controversy

JUST OVER a week ago, the IDF's prime new weapon in the territories, the Barrett 0.22 inch sniper rifle, claimed its first victim. Ismael Abu Srur, a 22-year-old English student from Bethlehem University, was fatally shot in the head by a sharpshooter as troops broke up a violent protest at the campus.

The death brought a wave of riot in the Bethlehem area and more wounded.

The use of the sniper rifle has raised concerns that the IDF has entered a new, sinister phase in its riot-control techniques. Contrary to the past, it is argued, firearms are no longer used as a last resort. The sniper rifle has become a recognized, legitimate means to battle rioters, enabling soldiers to pick off protest leaders with methodical precision and deadly accuracy. According to this argument, the bullet which slammed into the head of the student in Bethlehem was telling evidence of the new weapon's dangers.

OC Central Command Amram Mitzna, who appears sensitive to these concerns, has a different view. He says the sniper rifle represents an attempt by the IDF to further restrict its use of firearms while putting down unrest. Rather than having untrained soldiers use standard weapons against a threatening mob, which could lead to innocent casualties, the sniper rifle can only be used by trained soldiers, under supervision of a commander, for pinpoint firing at the legs of riot leaders who endanger troops. The firing is not intended to disperse demonstrators, but to compel rioters whose advance threatens the life of soldiers, he says.

Officers say the rifle's lethal effect is reduced since its bullets do not change direction once they penetrate, thus avoiding the extensive internal injuries caused by standard ammunition. Since the rifle's bullets are made of copper, they do not cause lead poisoning like regular bullets.

The realities at Bethlehem University last week were harsher. The sniper set his sites on the rock-hurling rioters -- who according to IDF accounts cornered a group of soldiers -- fired one shot at the legs, and the second "in order to hit," in the words of an IDF spokeswoman. This term usually means firing at the upper part of the body. The sniper, who according to Mitzna was firing from the ground upwards, hit the student in the head.

THE CONTROVERSY over the use of the sniper rifle is part of the broader debate on the use of the army and its techniques against civilians in the territories.

At a recent press conference in Ramallah, Palestinian lawyers Raja Shehadeh and Jonathan Kuttab of the human rights group, Al-Haq -- Law in the Service of Man, argued that Army violence in the territories, including firing at rioters and beating young detainees, had reached intolerable levels. Shooting at rioters is unthinkable in confrontations between security forces and Jewish mobs, and its practice in the territories reflects a callousness toward Palestinian lives, they said.

In a briefing paper, Al-Haq (which is the West Bank affiliate of the International Commission of Jurists in Geneva) raises a number of arguments, which it is useful to juxtapose with IDF orders, recently discussed with reporters by Mitzna.

Al-Haq notes that criteria for troops opening fire have not been published by the Army, and appear

dieters' lives are threatened by gunfire or explosives: when rioters bodily assault troops or hurl "cold" weapons (rocks, iron bars, etc.) in a way which poses a "real and present danger" to their lives: when stopping a fleeing suspect.

Soldiers may only fire at rioters or fleeing suspects after warnings and shots fired at a 60 degree angle have failed to produce the desired result. In a riot, only single shots may be fired at the legs of a specific assailant identified as posing a threat to life. Shooting must stop once the danger is removed.

Rioters who do not threaten the lives of soldiers may only be dispersed by shots in the air, on orders of a senior commander, if warnings and non-lethal riot control methods (tear-gas, rubber bullets or water cannon) have proved ineffective. Shooting is forbidden at stone-throwers, unless they pose a real and present danger to the lives of troops or civilian motorists.

Al-Haq says that the procedure for firing at fleeing suspects is "ex-

men who, according to military sources, fled from their car after running an IDF roadblock. Relatives of two of the men, who identified their bodies, said they were riddled with bullet holes from the front. It appeared that the mandate to shoot had been over-zealously carried out by the soldiers at the scene, who apparently raked the men with gunfire, though stopping them did not require such heavy shooting.

IDF orders stipulate that a "suspect" is a person who can be reasonably assumed to be on his way to perpetrate a terrorist attack or a serious crime. The suspicion must be grounded in facts and reliable information, and cannot be based on intuition or guess. A "serious crime" is defined as murder or attempted murder, membership or activity in a banned organization, illegal possession of weapons, or hurling stones in a way which endangers lives.

Under no circumstances may soldiers open fire at persons who have merely refused to identify themselves, or are suspected of other criminal activities. Under no circumstances may soldiers open fire at fleeing persons who have ignored orders to stop, unless they meet the criteria of a "suspect." Firing at a fleeing suspect must be a last resort, after all other means to stop him have failed. Single shots are to be fired at the legs.

Despite IDF orders to shoot at the legs, statistics collected by Al-Haq on 106 cases of gunfire casualties in 1986 and 1987 show that in more than half of the cases, the victims were wounded in other parts of their bodies. Military sources have attributed this to difficulty in aiming precisely at moving targets, changes of direction by bullets once they penetrate, and bucking of rifle barrels during firing.

AL-HAQ HOLDS the military authorities responsible for a failure to develop non-lethal riot control techniques and equipment.

Concerning techniques, senior IDF officers maintain that there is no alternative to using army troops to maintain law and order in the territories. But infantry soldiers trained to fire rifles at an enemy do not always respond to rioters as would police squads practiced in dispersing violent demonstrations.

At An-Najah University in Nablus last year, soldiers could be seen taking cover behind buildings, and



IDF soldiers take refuge behind a wall from a hail of stones thrown at them by Bethlehem University students last month as an officer fires a tear gas grenade. (Itzhak Elharar)

emerging to fire several rounds at protesters. Riot police in action in Jerusalem several weeks ago acted differently when confronted with crowds of ultra-Orthodox Jews, some of whom hurled stones. They made liberal use of tear-gas and water-cannons, charged the rioters on horseback, but never came close to firing their weapons.

IDF officers have maintained that despite moves to increase the number of Border Police in the territories, manpower is limited, and it is impossible to concentrate phalanxes of troops or riot police at every point where a riot breaks out. Scenes from abroad of hundreds of police charging demonstrators cannot be duplicated in the territories. Moreover, according to Mitzna, the creation of riot squads in the territories, whose members have the sole task of breaking up protests, threatens to brutalize those members in a way which cannot happen when soldiers are rotated through the territories for limited periods.

As for equipment, the IDF recently unveiled a new arsenal of non-lethal riot control gear, including U.S.-made tear-gas canisters which skip (so they cannot be held and smothered), pocket-sized tear-

gas canisters, a stun grenade, a new water-cannon which can shoot pulses of coloured water up to 70 metres, as well as tear-gas, clubs (to be replaced by non-breakable rubber truncheons), and a specially outfitted jeep equipped with a high-powered loudspeaker and flashing light for warning rioters. Helmets with plastic eye-shields have been developed to cut down danger to troops.

Mitzna says that aside from the moral requirement, preventing loss of life while breaking up violent protests is a paramount operational interest of the IDF, because every killing fuels the fires of unrest in the territories.

At the same time, Israeli officers and defence officials have argued that Palestinian rioters bear responsibility for the serious consequences of their decision to violently disturb the peace and confront fully armed troops.

Mitzna says rioters will learn the limitations of the new riot control equipment, and exploit these to the hilt in confrontations with troops. IDF soldiers involved in such clashes have often reported that shots in the air hardly repel Palestinian rioters, who also know how to smother

tear-gas grenades with buckets of sand or water, toss them back at soldiers, and throw stones out of range of rubber bullets. Palestinian youths appear to be fearless in such confrontations: Some charge head on at armed soldiers, hurling stones at close range.

AL-HAQ questions whether the IDF's investigations of shooting incidents are adequately independent and thorough. It urges that inquiry teams include non-military personnel, in order to avoid a bias in favour of the Army's version of events. Al-Haq says it knows of only one case where a soldier faced prosecution on charges of violating open-fire orders.

Mitzna says he believes that the Military Police is the best suited and most effective investigating body into such incidents. Because it is part of the Army, it has the best access to military units and their personnel, and can easily obtain knowledge of their activities, he says. Mitzna cites a handful of cases in which soldiers faced court martial for violating open fire orders, including that of a soldier who opened fire indiscriminately in Nablus last May, killing a moneychanger, Awad Taktouk.

OVADIA ELI is a proud man: quietly proud of having pulled himself up by his own bootstraps, proud of his nine years as mayor of Afula, proud, too, of his grassroots contact with "ordinary folk" and of his ability to defuse tensions among them. His is a classic success story, on the personal and Likud party level and one that Labour might well look to and learn from.

A portly, skull-cap-wearing 42-year-old, Eli was born in Iraq and came to Israel in 1950, when his family settled in Moshav Elifelet in the Galilee, where his father lives to this day.

"I'm what some people call a member of the second Israel," he notes with a smile, "but I haven't got a chip on my shoulder about it." Spotted as a youngster of outstanding ability, Eli was among the first to benefit from David Ben-Gurion's scheme to educate such children in Jerusalem; there he spent his high school years and attended a "teachers' training college."

In the IDF, he became a major in the Artillery Corps and commander of a battle unit. There then followed eight strenuous years first as teacher, later as headmaster of an Afula State Religious school, during which he was also a regional inspector for the Education Ministry and a student at Haifa University.

His schoolteacher wife is a sabra of Polish-Czechoslovak parentage. They have "three wonderful children aged from 16 to 9, two boys and a girl."

The move into politics came in 1978, when Eli was discovered by no less than three parties, the NRP, the now defunct Democratic Movement for Change, and the Likud, all on the lookout for a mayoral candidate who could wrest Afula from Labour's historic control.

"But I was a Likudnik!" Eli declares.

Afula Mayor, MK Ovadia Eli speaks to The POST's DVORAH GETZLER.

Finger on a town's pulse

He cites Menachem Begin's leadership as the first attraction the party held for him, a comment that those in the Shamir camp may find ironic from an outspoken supporter of David Levy as the party's next leader.

Eli also says that the Likud's social and foreign policies seemed to him the more correct. But he bucks any attempt to probe him further on what being a Likudnik means.

He has certainly taken to the limelight, and pursues with pleasure as he talks of running the town of 30,000 which, he says, now "really deserves to be called the capital of the Emek."

He is especially proud of the town's wall-to-wall coalition: "In municipal life there is no worry about international peace conferences, no right and left pavements; there are only pavements and other shared interests. The people on the council want the good of the town."

What he modestly omits to mention is his own role in settling quarrels, a role that came to public notice some two years ago following the murder by Arab youths of a local schoolteacher and his assistant. Eli laboured hard then to calm anti-Arab passions in the town and said that all is quiet there today. The 1,000 Arabs who work there do so "unhindered and as a matter of course."

The same desire to avoid conflict marks his relations with the religious. Though he is personally observant and his sons attend a yeshiva high school, he believes in "live and let live," on religious matters. Afula has a long and peaceful tradition of Friday night entertainment and cul-

tural activities and its swimming pools open on the sabbath.

"But Jerusalem is different," he insists, with more than a nod in the direction of his party's ultra-Orthodox alliances.

He also points to his excellent relations with the surrounding kibbutzim, where he is often invited to speak. Afula and its kibbutz neighbours hold joint cultural events, work together to raise money for the local hospital, and, together with the moshavim, run a regional old age home. Why this cannot also be duplicated in Kiryat Shmona, Eli is not prepared to guess.

Perhaps because of his own struggle to the top, Eli runs a tight ship in Afula. Unlike many of his fellow mayors, he does not bemoan the short financial rein on which the government keeps the local authorities. He collects enough taxes to finance over half the city's budget, and, if one excepts those services such as education and social welfare, for which, he complains, the government uses the municipalities as "sub-contractors," the figure is up to 80 per cent.

DOES HIS being an MK help Afula?

Eli claims that neighbours -- whom he doesn't name -- have received up to NIS 11 million in government grants, while Afula "hasn't had so much as a red cent." But he admits that he does have an easier time approaching ministers and senior civil servants with requests for industries, housing, roads, social services and the like than other mayors. "That type of public relations is

in any case at least half the work of a mayor.

"But the Knesset benefits from my being a mayor," he claims. As a leading member of the Interior Committee Eli feels his comments have greater immediacy because of his "direct contact with the man in the street. I keep my office door open every Sunday in Afula, and I really have my finger on the pulse of things. That's important for the work of the Knesset."

Eli is a busy man in the party, too. A member of its central committee, he played a key role last year in helping repair the damage done at the last, disastrous party convention, and the word in the party is that Eli is the liaison man between the often warring Levy and Shamir camps.

Careful to insist that Shamir is the party leader for as long as he chooses to continue as such, Eli makes no bones about his wholehearted support for Levy.

Levy is the man of the future, he suggests. "I believe in his ability, in his leadership capacities. He's made a huge contribution to this country. The very fact that a man from a Moroccan background, was able to do what he has done gave everyone of a similar background a new sense of confidence. And he's also really paid attention to the development towns and their quality of life."

Eli denies that his support for Levy springs from a sense of solidarity with others of Middle Eastern background. The party, he insists, won't choose its next leader on the basis of communal affiliations. "If Ariel Sharon is Levy's chief

rival for the leadership, then I think Levy will emerge as the victor."

Asked where he stands on peace policies, Eli predictably takes refuge in the Camp David accords and on negotiations with Jordan.

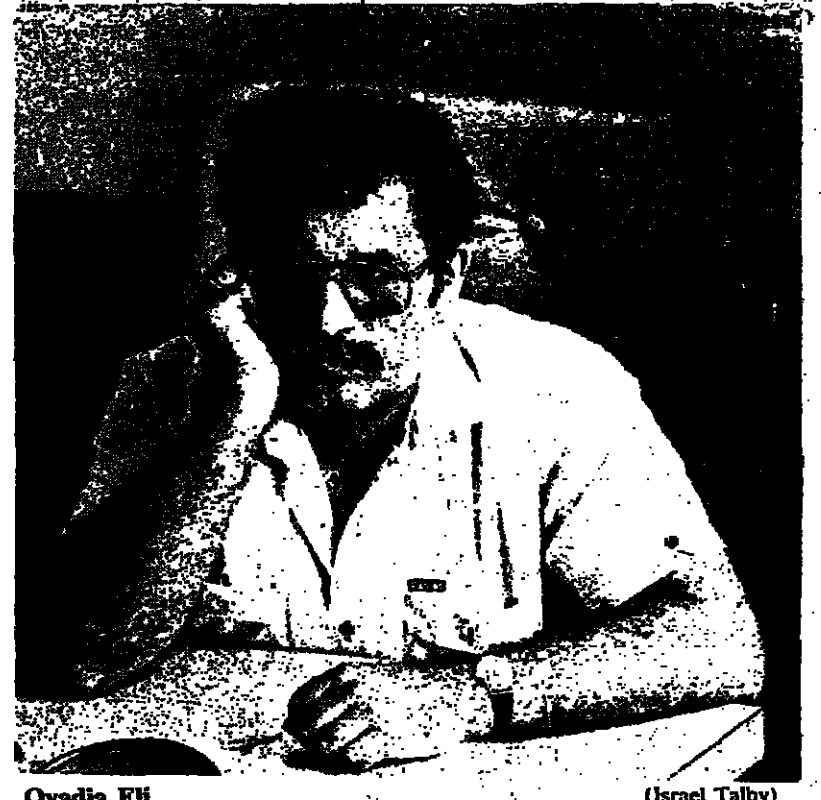
"Autonomy for people and not for territories," he says, stressing that this is the proper safeguard for democracy. But he is insistent that democracy must exist.

"I'm against any idea of transfer. The Arabs in the territories have their rights there. The state has to fulfill its obligations to them in full."

What will happen at the end of the five years anticipated for the autonomy is not something he wants to think about -- that bridge can only be crossed when it is reached, he says. That successive governments since 1967 have failed to find a lasting solution for the territories is something he brushes aside: "We haven't yet tried autonomy."

For Eli, as a man of Galilee, the problem is not money for the territories versus money for Galilee. Such slogans are out of place, he believes. There are people and money enough for both. Rather, the problem is that too many people have concentrated themselves in the coastal plain. "It's got to be: 'Move East, young man!'" he says, including the territories and the Negev in that call, and deploring the social, economic, and security dangers in the coastal concentration.

It's all a matter of priorities, he believes. Which brings him to a favourite hobby-horse: the inflated cost of labour, and the low productivity of labour. "A third of the work force is employed in the civil service," he fumes. "It's one-eighth or ninth in other countries. It's inconceivable that 310,000 industrial workers and another 60,000 in agriculture should carry all the rest. The productivity of labour here is one-third of that in the U.S., half of that



Ovadia Eli (Israel Talby)

in Germany. Work has to be put back into the centre of our life, people have to take pride in being blue-collar workers."

Afula, he says, can serve as an example. Only 300 of the town's 20,000 were employed in industry 10 years ago. Today, he claims, there are 3,000 so employed and the town has grown by 50 per cent. But he admits that there is still a problem in attracting back to the town those of

its youngsters who go on to tertiary education.

Eli would welcome a second Knesset term. Like many in his party he touts the idea of a national unity government after the next election: "It's for the good of the state, and the state is what matters. Unless, of course, the Likud has a really convincing majority." But about that, he doesn't sound too convinced.

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Wolf Blitzer considers implications for Israel in this week's change at the U.S. Defence Department

Carlucci, a tough, smart infighter



(APF)

WASHINGTON. — Secretary of State George Shultz's standing in Washington has been dramatically enhanced by the resignation of Caspar Weinberger as secretary of defense.

Shultz, by all accounts, will now become by the major adviser to President Ronald Reagan on foreign policy and national security affairs. He has little competition left.

Shultz and Weinberger had often differed on key issues, especially in the area of superpower arms control negotiations. Weinberger was seen as more of a hardliner on these issues.

Weinberger and Shultz also had a rather different assessment of Israel's strategic value to the United States. Shultz was considerably more supportive of Israel.

One reason cited for Weinberger's resignation was Reagan's willingness to enter into the latest U.S.-Soviet arms control agreement, scheduled to be signed during Reagan's summit with Soviet leader Mikhail Gorbachev in Washington on Dec. 7.

Weinberger's successor at the Pentagon, Frank Carlucci, is said to be more in tune with Shultz's views on these and other issues.

Carlucci, who has served as the national security adviser in the White House for nearly a year, does not have the stature and prestige of the 70-year-old Weinberger. And unlike Weinberger, Carlucci does not have a long-standing personal relationship with the president. Weinberger worked for Reagan in California for many years and they came to Washington together.

In policy circles, therefore, Weinberger and Shultz were seen as virtual equals.

But Shultz, of course, is seen as considerably more senior than Carlucci. Thus, Reagan will now become even more dependent on Shultz than ever before in his decision-making process. And that must come as good news to Israel and its supporters in Washington.

Carlucci, a former State Department Foreign Service officer who served as ambassador to Portugal, had served as Weinberger's deputy in the Pentagon earlier in the Reagan administration. During the Carter administration, he was deputy director of the Central Intelligence Agency. He is widely seen as an experienced, tough and smart bureaucratic infighter.

His successor on the National Security Council, Lt. Gen. Colin Powell, is very highly regarded by professional staffers at the Pentagon and the White House. A former commander of U.S. forces in West Germany, he will become the first black to fill the top NSC slot. Before becoming Carlucci's top aide, he served as Weinberger's military assistant at the Defence Department.

THE WALL Street Journal described Powell as "an even-tempered, self-effacing product of Washington's military and political establishments. While he isn't well known among the members of Congress, he is a skillful operator of the national security bureaucracy and he has worked closely with Mr. Carlucci for 15 years."

In an editorial, *The New York Times* commented that the new assignments for Carlucci and Powell "will insure that in the twilight of the Reagan administration these two vital posts are filled by experienced people."

Carlucci, in recent months, has played a very active role in several Israel-related issues. He was seen as very helpful to Israel in easing the financial burdens resulting from the cancellation of the Lavi jet fighter.

According to U.S. officials, Carlucci generally supports an enhanced U.S.-Israeli strategic cooperation arrangement. Weinberger, from the start, was seen as having very serious reservations about the United States moving too far in this direction.

More recently, Carlucci was also instrumental in negotiating a compromise deal with pro-Israeli senators and lobbyists over a new F-15 aircraft and missile package to Saudi Arabia. He spent many hours working out the arrangement, which saw the administration eliminate Maverick anti-tank missiles and other hardware from the proposed package. As a result, the sale will not be opposed on Capitol Hill.

Carlucci is not expected to face much opposition in the Senate during his confirmation hearings.

The designated defence secretary, who is 57 years old, was also outspoken in his support of Soviet Jewry. He was a keynote speaker last month before the leadership convention in Washington of the National Conference on Soviet Jewry. He pledged to press ahead with this struggle.

At that time, he said that "A campaign of gestures, however welcome, does not add up to justice, to a systematic improvement in the overall human rights situation" in the Soviet Union. "Promises of things to come still don't amount to actions," he added.

The Caspar Weinberger enigma

WASHINGTON. — Dov Zakheim, a former senior official in the Pentagon who is today a private defence consultant in Washington, believes that Defence Secretary Caspar Weinberger was "badly misunderstood" by Israel and the American Jewish community.

In an interview, Zakheim insisted that Weinberger, who tendered his resignation this week, was by no means anti-Israel or anti-Semitic as some of his critics often charged over the past seven years.

Zakheim, himself an Orthodox Jew, acknowledged that Weinberger's image problem in this regard began early in the Reagan administration: "He got off on the wrong foot," he said.

But he insisted that this was largely the result of Weinberger's "personal" problem with the then Israeli defence minister Ariel Sharon. Weinberger and Sharon never got along, according to Zakheim.

Further exacerbating the tensions, he added, was Weinberger's very strong opposition to Israel's invasion of Lebanon. The defence secretary — unlike the then secretary of state, Alexander Haig — wanted the U.S. to come down very hard against the Israeli action. Weinberger later unsuccessfully opposed the introduction of U.S. troops into Lebanon.

But Zakheim insisted that Weinberger subsequently developed a much closer working relationship with Sharon's successors, first Moshe Arens and then Yitzhak Rabin. That, according to Zakheim, was reflected in the improved U.S.-Israeli military connection.

"Weinberger really believes that Israel is not our only solution to the problems in the Middle East," Zakheim said. "He has felt very strongly about our need to cultivate Saudi Arabia. In the true sense — not in the pejorative sense — he has been evenhanded."

Thus, Weinberger was a key administration player in the very controversial 1981 Saudi Awaas package which was narrowly approved in the Senate. Later, he sought to restrict the scope of U.S.-Israeli strategic cooperation. He also very strongly opposed Israel's development of the Lavi jet fighter.

But Zakheim pointed out that Israel's military relationship with the U.S. — as reflected in day-to-day working agreements involving such things as port visits to Haifa and Ashdod — was today better than ever before, "under Weinberger's watch."

Weinberger had been in a position to undermine these kinds of agreements but did not, according to Zakheim.

And, Zakheim insisted, it was absurd to accuse Weinberger of harbouring anti-Semitic feelings, noting that several of the secretary's top aides at

the Pentagon over the years were, in fact, Jewish. He cited Richard Perle, a former assistant secretary for international security affairs; Stephen Bryen and Noel Koch, deputy assistant secretaries; and himself.

"He bitterly resented these accusations," Zakheim said. "I found him to be an extremely supportive, very warm, and generous person — a model gentleman. I never saw him lose his temper in seven years."

Weinberger, during a meeting with Jewish reporters and editors four years ago, said he was "enormously proud" of his own "Jewish ancestry." He said that "at least" one of his grandfathers had been Jewish.

He joked that the debate in the Knesset over the "Who is a Jew" law made it difficult for him to define precisely his religious heritage. But he noted that his mother was a Christian and



(Bramman)

that he had been raised in that faith. Today, he regularly attends church.

MORRIS J. Amitay, a former executive director of the American Israel Public Affairs Committee (Aipac) who is today a private consultant in Washington, has a different perspective on Weinberger than Zakheim.

"Every indication I have seen is that closer U.S.-Israeli military relations developed over the years despite Weinberger," Amitay said. "His instinctive inclination was to always delay agreements with Israel or to undervalue Israel as a strategic asset."

Amitay insisted that U.S.-Israeli military ties improved during Weinberger's tenure because of America's own strategic needs. The U.S. needed greater help from Israel in a whole host of military areas.

Weinberger, he added, was also following the

instructions of President Ronald Reagan. "who has always admired Israel's advanced fighting qualities."

Aaron Rosenbaum, another Washington defence consultant, offered a "middle" position on Weinberger's record.

"I don't think Weinberger was either hostile or especially friendly," he said. "He was a politically astute realist who understood that there was little to gain by opposing the general improvement in relations with Israel. But he also had no visceral desire to make U.S.-Israeli strategic cooperation a high priority for the Defence Department."

Rosenbaum said that Weinberger usually thought that U.S. arms sales were "one of the best ways for the United States to solidify its military relations with a variety of countries, especially Saudi Arabia."

The improved U.S.-Israeli relationship with Israel in recent years, Rosenbaum added, was more the result of "institutional pressures" in Washington, such as the very favourable climate toward Israel on Capitol Hill. At the same time, he said, there was a general "disenchantment" with the Arabs.

Because he was so politically astute, Weinberger personally sought to refute the frequent attacks against him because of his allegedly anti-Israel policies. He wrote letters to weekly Jewish newspapers in the U.S. and addressed several national Jewish organizations.

When *The New Republic* criticized his statements on Israel in the aftermath of the Lebanon War in 1983, he wrote a lengthy letter to the editor defending his record.

"There are strong bonds between the U.S. and the State of Israel," he wrote. "We are bound by the interests of mutual security. We face a common threat from Soviet-backed terrorism. We share a common interest in promoting peace and stability in the Middle East. In order to accomplish that, we need many friends in the Middle East, specifically including Israel."

"We are also bound by our common heritage of democratic freedom."

But those efforts to improve his image were largely unsuccessful.

Weinberger, by all accounts, was intellectually consistent in discussing the situation in the Middle East. In his public statements, he always balanced his expressions of support for Israel with the need for the U.S. to maintain close ties with moderate Arab states.

In the end, the historical paradox will probably remain that while U.S.-Israeli military ties reached new heights during Weinberger's seven-year tenure, he will still be remembered negatively by many in Israel and the American Jewish community.

The end of a mystery

Philip Gillon's Telereview

THE GREAT mystery of who chooses Israel Television's films, and why he chooses what he does, was resolved this week in the course of the nightly Granada documentary about the innards of television on Channel Two.

"We were taken into a beautiful hotel in Monte Carlo to attend the annual TV fair held there. The narrator told us that film producers came to Monte Carlo to market their "product" (the trade name for films), while buyers, representing 2.5 billion viewers came to look the product over. We were told that films were viewed on TV screens in the bedrooms, and deals concluded afterwards in the corridors. Then we were taken into one of the bedrooms and there, lo and behold, was a very familiar back.

It was an Israeli, Tuvia Sa'ar, at that time director-general of Israel Television. (We Israelis get everywhere, even into a Granada series about TV.) He had gone to Monte Carlo to buy something for our education, and was viewing *The Paper Dolls*.

He explained that what he wanted was some honest escapism to take his viewers' minds off the news of wars which they were getting all the time. He thought *The Paper Dolls* would do the trick because it had some sex, pretty faces which all the women and some of the men would like, and it was not too violent.

If my memory serves me correctly, *The Paper Dolls* was one of the most awful films ever made. I think that Sa'ar was being somewhat unfair to his viewers. It is not that his criteria were wrong — we do want escapism and I for one approve of sex and I adore pretty faces — but I am sure that it is humanly possible to get these things in an intelligent plot using credible characters.

Of course, I must admit that the other evidence produced in this series seems to have proven me wrong. Great stress was laid on the universal popularity of junk like *Dallas* and *Dynasty*, even in China. These serials have their devotees in Israel as well.

SOMEBODY blamed the low standards of television entertainment on the ratings system. This system is supposed to be an infallible guide to what viewers want to see. It is then used by advertisers to determine where they will spend their dough, and by the television companies to decide how much money they can pry out of the advertisers. "The system has destroyed creative work," we were told gloomily.

This may be true about America, where the omnipotent advertisers sponsor specific shows and provide the dough to finance them. These advertisers, we gathered, are people with the intelligence of an ape that was hit repeatedly on the head on

the day of its birth, and they believe that the viewers are even dimmer-witted than themselves.

But English advertisers do not have the same say over the nature of the product, and the English manager, to make some pretty ghastly films. One commentator on British humour said that there were fashions in TV humour, the current fad being undergraduate humour, which not everyone can understand. I am grateful to him for explaining why so many British comedies have become so bad. For that matter, the general standard of British television has sunk considerably in the last 10 years: very seldom do they produce anything memorable.

The most intelligent comment I have ever heard on the low standards of television entertainment was not made in this series, but by a writer who worked on *The Red Skelton Show*. He said that it is impossible to do anything worthwhile because of the problem of time.

Television's appetite for material, he claimed, was so gargantuan that quality didn't matter; all that mattered was quantity. If somebody produced a play or film for the theatre, they spent months on it; there was time to rehearse, to polish, to eliminate the dross. Furthermore, the aim was that the play or film would run for a long time and would be seen by thousands of people in as many theatres, but not at the same

time. What is more, the play or film would be the only thing seen. He said that a TV show was seen by millions simultaneously but, by the time it had filled its time slot, it had been forgotten in favour of the item filling the next time slot. And that would be followed by yet something else.

So, he claimed, this omnivorous creature, television, could not afford time to develop taste. All it wanted, like Oliver Twist, was more. And more, and more, and more.

THE SERIES devoted one episode to the impact of television news, claiming that this had a power to influence people that no other medium had ever had. I am not at all certain that this is true. Hitler used radio to cast a spell over the German people — for that matter, Winston Churchill and Franklin D. Roosevelt also used radio to grip the hearts and imaginations of their listeners. And, before radio, people were influenced enormously by what they read in newspapers.

In fact, they still are. I see no diminution in the power of the written word. We are now subject to a variety of presentations of news and opinions, and they all combine to affect our thinking.

The Granada series claimed that the defeat of Senator Joe McCarthy was entirely the result of Ed Mur-

row's brilliant and courageous use of his *See It Now* programme to expose McCarthy's villainies. Murrow did a wonderful job on the Wisconsin monster, but I don't believe that this alone brought about McCarthy's downfall.

What ruined McCarthy was his decision to go for the War Department and the Army. That turned Eisenhower against him, and led to the hearings that were widely publicized in all the media.

I hasten to add that I do not minimize the extraordinary impact that seeing the news on television has on all of us. It has terrific immediacy — but it also has the same ephemeral quality that entertainment has, since the particular news item or documentary is followed by something else.

Only when we read something in the paper are we convinced that it happened.

When I was a correspondent in Ashkelon for *Ma'ariv* and *The Jerusalem Post*, we witnessed a dogfight between three Israeli planes and three Egyptian Vampires that started over the sea. One Egyptian plane was hit and seemed to come down over the land. A little later a friend came rushing into town to tell me that he had seen the plane crash, knew where the wreck was and that the pilot was dead.

I tried to phone the story

Second Channel schedule

(This revised schedule for the period November 6-12 was received too late for inclusion in today's Weekend Magazine.)

Friday
17.30 Fables of the Green Forest
18.00 Wuthering Heights
19.45 Concert - Mahler's Fourth Symphony 20.45 Television - part 12 21.40 Pop 2 - Donna Summer
Saturday
17.30 Fables of the Green Forest
18.00 Film 19.30 Opera - Aida from Verona's amphitheatre
Sunday
17.30 King Arthur - children's cartoon dubbed into Hebrew 18.00 Georgia - film 19.55 French jazz 20.30 Television - final part 21.10 Pop 2

Monday
8.30 The Demjanjuk Trial - live broadcast 17.30 King Arthur - cartoon

18.00 Love from a Distant Land - film 20.00 The Demjanjuk Trial - roundup 20.30 Dance - Wayne Sleep 21.20 Pop 2
Tuesday
8.30 The Demjanjuk Trial - live broadcast 17.30 King Arthur - cartoon 18.00 Film - with John Travolta 19.30 The Demjanjuk Trial - roundup 20.00 Entertainment 21.00 Pop 2
Wednesday
8.30 The Demjanjuk Trial - live broadcast 17.30 King Arthur - cartoon 18.00 Film - with John Travolta 19.30 The Demjanjuk Trial - roundup 20.00 Entertainment 21.00 Pop 2
Thursday
8.30 The Demjanjuk Trial - live broadcast 17.30 King Arthur - cartoon 18.00 Film - with John Travolta 19.30 The Demjanjuk Trial - roundup 20.00 Entertainment 21.00 Pop 2

those days — like these days — it was impossible to get a line when it was urgent. So I drove into Tel Aviv and handed in my story. Then I stayed in the metropolis to do other things.

By the time I got back to Ashkelon, *Ma'ariv* was already out. My friend came running up to me, crying:

"That story about the plane is true — it's on the front page of *Ma'ariv*!" I turned pale — they had changed the front page for me. "But it's your story, you gave it to me — wasn't it true what you told me?" I expostulated. "Of course it was true," he answered. "But I only believe it now that I've read it in the paper."

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Haim Shapiro joins the pilgrimage to Rachel's Tomb in Bethlehem on the anniversary of the matriarch's death

ONCE A LONE outpost on the road to Bethlehem, the simple domed building which houses Rachel's Tomb is now surrounded by supermarkets and souvenir shops. Two giant fruit and vegetable markets stand on either side of the highway. A bright neon sign advertises Israel's best known producer of non-kosher meat and not far away is what appears to be a permanent Christmas display. The building itself is surrounded by a Muslim cemetery.

But all this is forgotten on the night of 11 Heshvan, the anniversary of the death of the matriarch, who died in childbirth and was buried by her husband Jacob at the site of her death, rather than in the Cave of Machpela, along with the other matriarchs and patriarchs.

All through the night, a steady stream of pilgrims call at her tomb. Many wear the traditional dress of the ultra-Orthodox: long black

coats, beards and side locks. Now that Sephardim have also adopted this attire, one can only distinguish them from the Ashkenazim by the fact that their faces are usually darker, and by the fact that among the very pious Sephardim, the traditional pronunciation has been retained.

All around are police, army and Border Police vehicles, guarding the visitors. Parked vans, cars and buses crowd the edge of the highway.

In the narrow courtyard, whose walls separate the building from the Muslim cemetery, a class of young boys from a Sephardic Talmud Torah chant psalms, more or less in unison, at the top of their voices. As

they pause for breath, a well-dressed, portly man flourishes two, brown 100-shekel notes, holding them up towards the floodlights which wash the courtyard with their illumination, letting them crackle between his fingers, before he presents them to the teacher.

"This is for the children," he tells the teacher.

It is a night for beggars. They stand at the entrance to the tomb and appear to have regular posts all along the way to the tomb itself. Some offer the printed receipts of a yeshiva. One wild-looking, tall, figure, with unkempt clothes and a scraggly beard, holds out a plastic jar and repeats the refrain, "for

Tora scholars."

According to the Book of Jeremiah, as the exiles passed her tomb on the way to Babylon, Rachel cried bitterly and the Almighty promised that they would eventually be restored to their land. Through the ages, her tomb has been frequented by those in need, the ill, and women who cannot conceive.

Though a hand-lettered sign directs men to one entrance and women to another, the separation of the sexes is not rigidly enforced. Just outside the women's section, four candles burn directly beneath a sign asking visitors not to light candles.

TWO WOMEN stand nearby. The

elder has a scarf covering her hair and is protected from the cold by a heavy winter coat. In her hand, she clutches a mass of red threads, each about 10 centimetres long.

"We wrapped the string around the tomb seven times," the younger one explains. "It is a charm to protect you from the evil eye and from all bad things."

"I'm collecting money to marry off a girl. She's an orphan," the older woman tells those who stop nearby. As each one hands over a sum of money, she counts it out and gives an appropriate number of lengths of string. They seem to be going for NIS 1 apiece.

Further on, a family has set out food for the visitors — pieces of melon and tangerines.

"We brought the food as a mitzva," a young man explains.

The doorway to the tomb itself is crowded with a solid mass of people, forcing their way in or out.

"Let us out," one elderly man pleads, "then you can get in." But the doorway seems to be continuously blocked. The weak, the elderly and the non-aggressive hardly push at all, letting the young yeshiva students behind them do the work.

Inside, the high stone cenotaph is covered with a bright blue velvet covering. Overhead is a crystal

chandelier. All around are men reciting psalms. A few have single sheets printed with the form of a prayer of supplication for some private request. On one such form, the names have been pencilled in.

Some sway back and forth, reciting the psalms almost by rote, in a fairly offhand manner, but for others, the visit is far more personal and crucial.

One man with dark hair and a few days' growth of beard stands pressed up against the tomb. His hand clutches at it, as if to establish some sort of electric contact. A skullcap perches precariously on his head as if it is unused to being there. From time to time his body is racked with emotion as he recites a silent prayer.

Outside, though the night is becoming ever chillier, the pilgrims continue to come, as they will throughout the night, calling on Mother Rachel.

The night the needy gathered

The Tora portion for this week is Va-yeira (Genesis 18:1-2:24).

WHO SAID that Sodom was utterly destroyed and wiped out? As far as we can see, it is still very much alive and kicking. From reliable sources in the Tora (Genesis 19:24-25) we know that the city by that name and some of its neighbouring cities in the vicinity of the Dead Sea were indeed destroyed by fire and brimstone. But everything Sodom represented, which contributed to its eventual destruction, is still thriving as it has done down through the ages.

For what is the wickedness that Sodom represents and symbolizes? It is not, as some may think, the extreme practice of sexual aberrations (from which is derived the verb to sodomize). For sure, Sodom boasted of immoral sexual "freedoms," experimenting with all kinds of abnormality and wife swapping, but that was only one "by-product" of its moral and cultural ambience.

Nor is Sodom the paradigmatic "sinful city," where the inhabitants go wild in rampant lawlessness and commit outrageous criminal practices. On the contrary, the picture that emerges from what we learn from the classical sources regarding Sodom is that of an exemplary law-abiding society, where the law stood above all other considerations.

The problem with Sodom was not the violation of the law, but the nature of the law itself.

When the people of Sodom legislated their laws, they most likely did not declare that their purpose was to act cruelly towards other people. On the contrary, they must have hailed them as expressing noble ideas of supreme national interest and sound

economic or even moral measures of self-preservation. People on welfare, they argued for example, undermine the structure of the perfect society. Welfare, in any form, must therefore be prohibited by law. All aliens invading the city were suspect; measures must, therefore, be taken to restrain any visitors from the outside. The law came to make sure that this was done properly. No sanctuary was to be offered to strangers, under any circumstances.

What was the "inspiration" for such laws? The prophet Ezekiel (in the 6th century BCE) offers the answer: "She [Sodom] and her daughters were proud because they had plenty to eat and lived in peace and quiet." "The people of Sodom were not embarrassed by the fact that they did not take care of the poor and underprivileged," testifies Ezekiel (16:49-50). "They were proud and stubborn" because of their material affluence and unshaken national security.

A similar explanation for the behaviour of the Sodomites is offered by Josephus Flavius (in the 1st century): "The Sodomites grew proud on account of their riches and great wealth, they became unjust towards men and impious towards God... they hated strangers and abused themselves with Sodomitical practices" (Antiquities of the Jews, Book 1, Ch. 11).

The rabbis in an ancient Midrash (Mekilta de-Rabbi Ishmael, ed. Lauterbach, Vol. 1, p. 14) elaborate further on the theme as they apply to

Sodom the verses from the book of Job (28:5-8) which describe "the earth of which comes bread... the stones thereof are the place of sapphires... that path no bird of prey knows and the proud beasts have not trodden it." Being in possession of such a plentiful country, the people of Sodom said: "We do not need anyone to come to us. Behold, food is taken from us, and silver and gold and precious stones and pearls are taken from us. Let travelling among us be forgotten!"

They boasted of their riches and legislated in favour of "splendid isolationism." They did not comprehend that a society which lives only for itself is sooner or later doomed, no matter how rich and powerful it is. It took humanity many centuries to learn this lesson espoused by the prophets and the rabbis of Israel. Nonetheless, Sodomite-style policies are still practised today by many countries around the world.

How rare are such words as those expressed in modern times by one head of a rich and powerful country! "We have learned," claimed Franklin Delano Roosevelt in his fourth term inaugural address (January 20, 1945), "that we cannot live alone in peace; that our own well-being depends on the well-being of other nations far away. We have learned that we must live as men, not as ostriches, nor as dogs in the manger. We have learned to be citizens of the world, members of the human community." Unfortunately, the Jews of Hitler's European Sodom

TORA TODAY Pinchas H. Peli

were not to profit from his professed noble attitude.

SODOM REPRESENTED a philosophy which was translated into practice. It placed law above justice, order above compassion, self-interest above sharing. Giving charity was a punishable offence; welcoming a stranger was a crime. The proximity of the story of Sodom to that of Abraham's extra measure of hospitality towards his guests (18:1-8) is probably not accidental.

It contrasts sharply the difference between the two neighbours. "And the men turned their faces from there and went towards Sodom" (15:22), to move on from Abraham to Sodom they had to turn full circle and go in the opposite direction as the two were indeed poles apart in the relationship between man and man.

When we first hear about the people of Sodom, we are told (13:13) *v'anshei sedom ra'im v'hataim l'hashem me'od* (translated: "the men of Sodom were wicked and sinners before the Lord exceedingly"). The Rabbi of Kotzk (1789-1858) read the verse in the following way: The men of Sodom were wicked and sinners [in their behaviour between man and man] but, *l'hashem me'od*, when it came to matters relating to

God, they were exceedingly observant... They saw no contradiction between their rotten behaviour and the ultra-religious posture which they pretended to represent.

They never openly declared that they would not give charity to the poor. The Talmud tells that when a poor wayfarer came into town, each Sodomite would give him a coin and make sure to write his name on it. The law, however, strictly forbade selling food to strangers and the wayfarer thus died of starvation, at which point the Sodomite would retrieve the coin on which his name was written. Here they were kind, generous, giving charity and even had their names publicized when doing so. The fact that the poor stranger died of starvation and that they had retrieved their funds was not their own fault, of course. It was "the law of the land," you know. And what can we do about it? After all, we Sodomites are law-abiding citizens!

The same rabbinic source (T.B. Sanhedrin 109b) relates how they treated the stranger who came to town. They never said that he was not welcome within their gates. On the contrary, they received him warmly and even offered him a bed to sleep in. By the law of the land, they had two such beds especially designated for guests. One bed was short, the other long. If the guest was short they put him into the tall bed and stretched out his limbs to make him fit into the bed; were he tall, they put him into the short bed and lopped his limbs to make him fit the size of the bed. Needless to say that very few guests survived this exercise. What could be wrong with their behaviour, they argued, waving the banners of equality and egalitarianism. The law requires that each person must fit exactly the place which he occupies. They did not wish, God forbid, to mutilate their guests, all they wanted was

some *gleichschaltung*, some social equalizing, conformity and uniformity of "collective thinking," all, of course, for the sake of law and order.

To this day, the expression *mitat sedom*, a "Sodomite bed," is in common usage in modern Hebrew, connoting a forced fitting into a given mould. It parallels the Procrustean Bed in Greek mythology where Procrustes, a giant of Attica, seized travellers and similarly tied them to an iron bedstead after which he either cut off their legs or racked his victims until they fitted it (Plutarch: *Lives, Theseus*, 11).

ANOTHER CONCEPT, in addition to *mitat sedom*, which the Hebrew lexicon inherited from Sodom, is *midat sedom*, a Sodomite manner or way of acting. This is clearly defined both in halachic (legal) and aggadic (moralistic) contexts.

In legal disputes where party one stands to gain from a certain transaction while party two loses nothing (*zeh neheneh v'zeh lo hasser*), the law would compel the second party to concede to the claims of the first, although he would not be required to do so on purely legal grounds. This ruling is known as *kofin al midat sedom*, namely, that one can be "compelled not to act according to the manner of Sodom" where they would "adopt a dog-in-the-manger attitude, refusing to confer a benefit which costs them nothing" (T.B. Baba Bathra 12b. Soncino ed. com-

mentary, p. 61).

One specific case which was decided according to this ruling cited in the Talmud (ibid.) is about a man who bought a field adjacent to the estate of his father-in-law. When they came to divide the latter's estate, he said: Give me my share next to my own field. Rabbah (3rd century sage) said: This is a case where a man can be compelled "not to act after the manner of Sodom" and accordingly granted the person's request.

Midat sedom appears also in moralistic literature. The Mishna (Avot 5:13) lists four types of people and their different attitudes towards their own and other people's possessions. The first among them is "he who says, What is mine is mine and what is yours is yours." According to the Mishna, "he is the average type, but there are those who say that he acts according to the manner of Sodom."

Neither take nor give, every man for himself, might represent the honest and law-abiding average citizen. But this kind of attitude might easily deteriorate into a "manner of Sodom" where under the pretence of formal law the worst kind of cruel selfishness is hidden.

Wherever one finds relentless greed dressed as respectable success; heartless bureaucracy appearing under the pretence of law and order; callousness masked as good manners — there is Sodom. Sodom was punished for its iniquities and was destroyed, but it is, alas, still alive.

(Rabbi Peli is Blechner Professor of Jewish thought and literature, Ben-Gurion University of the Negev.)

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AS IS THE CASE with many public issues, the popular press has tried to depict the still incomplete Arens-Gilboa policy guidelines on the Israel Arab minority in terms of a scandal. The first reports of the survey, which were leaked last week, sought to emphasize one particular assessment, to the effect that some Arab political bodies may be developing in a direction that ran the danger of fostering eventual separation from Israel.

Such news could not constitute a scandal because it is not new. Some elements among the Israel Arab minorities have never made a secret of their continued hostility to Israel, just as others have never tired of reiterating their having made their peace with being a minority in a Jewish Israel and of seeking to make the best of it.

The real scandal is that the state and the direction of relations between Israel and its Arab minorities have never constituted an issue to which the establishment has paid any significant measure of attention. The as-yet-incomplete survey of these relations and the policy recommendations deriving from it, initiated just about a year ago by the recently resigned minister in charge of Arab affairs, Moshe Arens, and which is now being completed by his aide, Moshe Gilboa, is not the first of its kind.

The problem during this past decade and more was never a dearth of surveys and policy recommendations. Arab Affairs Adviser Shmuel Toledano prepared a similar survey and policy recommendations in the mid-1970s; Menachem Begin's Arab affairs adviser, Moshe Sharon, did the same several years later; and Ezer Weizman's aide, Yosef Gnat, did the same in the mid-1980s.

The problem always was that the top men in the political establishment never considered the question of what to do about the Israeli Arabs a very pressing one and never gave it very high priority in their calculations. There were two superficial discussions of the issue in cabinets over the past 12 years, discussions which themselves were never brought to a conclusion and from which nothing emerged in the sense of coherent policy.

A glimmer of hope emerged that this stance of purposeful neglect might be changing when the level of responsibility for internal Arab affairs was raised from that of Arab affairs adviser to that of cabinet minister with the appointment of Ezer Weizman in September 1984, and then of Moshe Arens in October 1987. Weizman's main focus of attention, however, was not on the Israeli Arabs but on the "peace process," on the parlous state of relations with Egypt, and of his own with then prime minister Shimon Peres. He failed to institute a methodical attack on the large number of problems confronting the Israeli Arabs.

Moshe Arens spent a good part of the past year learning the issues, getting to know the principals involved and on working on the policy paper. His order of priorities could best be attested to, however, by the fact that he chose to resign over the Lavi issue which, despite his understandable personal interest in it, is a long-term perspective of microscopic importance compared with that of the future of the Israel Arab community and its relations with the state and its Jewish majority.

A battle for Arab hearts and minds

IT IS HIGHLY doubtful that the top Israeli political establishment will in the next year change its ingrained attitude of neglect to the Israeli Arabs which characterized it for the past 40 years, just because of a new policy paper, regardless of what it contains. This government is the most ideologically divided one Israel has ever had.

It is also the beginning of an election year; in which, paradoxically or not, the two major parties, which have always neglected the Arab scene, are going to be competing more intensely than ever for the votes of a more-than-ever politically sophisticated Arab electorate.

If the Arab leadership, particularly the one organized in the Committee of Arab Heads of Local Government, play their cards right, they may be able to squeeze some more money out of the system this election year for badly needed schoolrooms and for a marginal

tion on the other end of the continuum have clearly made their peace with the idea of living as Arabs in a predominantly Jewish Israel. They are motivated primarily by a legitimate struggle for getting their fair slice of the Israeli pie — a struggle which well-intentioned Israeli Jews should support enthusiastically.

The real problem confronting Israel is the remaining slight majority of the Arab community that has not yet made up its mind unequivocally between those two opposing polar messages. It is that population that provides the greatest challenge both to the Israeli establishment and to a new generation of Israeli Arab leaders.

Considering the ongoing war of the Arabs against Israel over the past 40 years, and the salience of the Palestinian element in that war in the past 20 years, Israel has done not badly by its Arab minority. It could certainly have done better. But there is simply no comparing

Yosef Goell says Israel must take steps to make the country's Arabs feel truly at home

redressing the abysmal gap in budgets between Jewish and Arab municipalities. Such monetary redress is important. But the main problems which inform the relationship of Israel's Arabs to Israel and to its ruling Jewish majority today are not problems that can be solved simply by more money.

When the Israel Jewish establishment and public did pay attention to the Arab presence in their midst, that attention has zigzagged between the poles of suspicion of the Arabs as a potential subversive threat and a possible irreducible, and liberal democratic and Jewish motivations to do well by one's own minority.

As unpleasant as it may be to admit it openly, a measure of that suspicion was always warranted and continues to be warranted today. The Israeli Arabs are not simply another ethnic minority; they are the descendants of a recently conquered people, whose larger Palestinian national entity with which most of them identify emotionally continues to be in the forefront of a prolonged broader Arab hostility, which periodically has broken out into shooting wars. Many Israeli Arabs have never made a secret of their basic hostility to the Israel whose citizens they are.

That intrinsic hostility on the part of Israeli Arabs cannot be ignored; but it does not account for even half of the glass. According to many studies and to more impressionistic findings, a fifth of the glass would be a closer assessment of the extent of such hostile anti-Israel rejectionism among the Israeli Arabs. Nor is it a secret that about a similar propor-

the state of well-being of today's Arabs in Israel — in drastically lowered infant mortality, in impressively higher longevity and in their general health, in education and in the myriads of things that are measured in money — to that of their fathers and grandfathers generations.

Much of that progress was due to the Arabs' own efforts; but much of it was also due to conscious decisions by Israel. One of the main effects of such rapid progress, however, is the raising of aspirations. Most of the urgent bread-and-butter problems confronting today's Israeli Arabs are a result of such heightened aspirations.

THE MOST important challenge confronting Israel in its relations with this new generation of better-off, sophisticated, and aspiring but often frustrated Arabs, is that of making them feel truly at home in a Jewish Israel which is also their own homeland. In regard to the minority of hostiles, such a hope is a lost cause. But the minority who have clearly chosen to throw in their lot with Israel deserve a big dose of reinforcement.

The real struggle, however, will be for the hearts and minds of the majority who have not yet made up their minds. It is in Israel's own interest to insure that they make up their minds in the direction of joining those who have decided to throw in their lot with Israel. Two examples of what such an approach should comprise should suffice at this point.

Whatever the Arabs have gotten to date they have gotten as a result of Jewish paternalistic benevolence. They have matured, and such benevolence is no longer sufficient; in fact, it can be downright demeaning. Competing groups in Israel fight for and get their share of the pie primarily through the political arena. But Arabs, including the pro-Israeli Arabs, have in effect been frozen out of the real arena of interest-group politics. It is very important that they be included in, and that they see very clearly that new efforts are being mounted to include them in.

In a recent interview with Moshe Arens, he challenged my impression that his Herut party was dominated by anti-Arab elements. I am willing to have my impression proved wrong. But that would have to mean that Herut, even if only out of its own electoral self-interest, would be moved to include Arabs (in the plural and not only one Druse) in its forthcoming list of candidates to the Knesset elections. I'm not holding my breath.

But the real address for such demands remains the Labour Party, which has for long talked a much better game of "Arab integration," but has done precious little to differentiate itself from the Likud when it comes to doing. Some Labour election strategists are afraid that including more Arabs in their list will lose them Jewish votes. I doubt it. The sort of Jews who oppose including Arabs in their own political, institutional and social frameworks are mainly those who wouldn't vote for Labour in any case.

But it is not only a matter of promoting a small number of Arab politicians. Arabs must be included in the Israeli political process like any other legitimate interest group, which they are, and be made comfortable in that arena. It remains to be seen how the Labour party kingmakers will act in this regard when they finally get together to make up their candidates list. But politics is not all. The main task of making Israeli Arabs feel at home depends even more on the average Israeli.

One of the beneficial spinoffs of the emergence of Kahanist anti-Arab racism in the last years is that it has sensitized a growing number of Jews to the problem of the Israeli Arabs, which they chose to ignore in the past. It is time to start building on that growing sensitivity.

What is needed are more efforts to invite Arabs to live in Jewish neighbourhoods — not all of Israel is Ramat Amidar or Upper Nazareth, and I know of many cases in which individual Arabs and Jews live together in good relations, and Jews have opened up professional, economic, educational and social institutions to Arab membership.

It is important that such efforts not be artificial but touch on real aspects of life, where there is a real interest in such joint activities. There is a real danger of Israeli Arabs fostering separatist tendencies. The primary way of countering those tendencies is to open up as much of Israel as possible to real Arab participation.

The writer is a member of The Jerusalem Post editorial staff.

The High Court and the Knesset—II

Liberties depend on people, not on the courts

THE PUBLICATION of the report of the Landau Commission on the Shin Bet is another landmark in the series of episodes that began with the Bus No. 300 affair. Although, as the commission notes, its letter of appointment did not empower it to deal with that "incident," the commission correctly remarks that that case was "perhaps even more painful" than the Nafsu affair which triggered the judicial investigation into the practices of the Shin Bet.

The Ashkelon bus affair was painful, not only for the shock wave it produced that shook the security service to its foundations, but because of the very real shock it gave

the constitutional history of Israel. Indeed, the English sub-title of the book — "The Constitutional Crisis in Israel" — is more descriptive of its contents, in the breadth of its implications, than would be a more precise rendering of the Hebrew sub-title — "The Crisis of the Rule of Law in Israel." As such, it deserves to be read by the concerned citizen who seeks insight into the nation's past and ponders its future.

There are different nuances to the demands of the rule of law and the demands of constitutionality. Constitutionality, which Negbi sometimes refers to as democracy itself, demands that the enacted law itself

Allan E. Shapiro

the nation's political system. The appearance of the Landau commission report, therefore, makes especially timely Moshe Negbi's latest book, *Above the Law: The Constitutional Crisis in Israel* (Am Oved, 1987).

Nebi, the Kol Yisrael legal news editor and commentator and a jurist in his own right, begins and ends his recent study with the Shin Bet affair, which, he believes, pointed up all the weaknesses of the rule of law in Israel today: "the lack of sensitivity and respect on the part of the political establishment toward legal values; the lack of a formal barrier in the image of a written constitution to moderate the behaviour of that establishment; and lastly — the weakness of the attorney general and the High Court of Justice, with regard to which there were those who erred in the delusion that they had the power to constitute a suitable and effective substitute for a constitution." The introductory chapter, from which the foregoing is taken, concludes with the pessimistic assessment that Israel, in its fourth decade, is retreating from the high ideals of its founders, as inscribed in the Declaration of Independence.

The succeeding chapters spell out the details in what constitutes, in effect, a highly readable survey of

conform to basic notions of ordered liberty. (Amending the law to make life easier for the Shin Bet might satisfy the needs of the rule of law, not of constitutionality, in the broad sense.)

Nebi makes no bones about his basic mistrust of legislative majorities. In the misdeeds of a sovereign Knesset majority, unfettered by constitutional restraints, as well as the anti-libertarian heritage of the British mandatory regime, adopted into Israel's law books with independence, Negbi finds the preconditions for the present constitutional deficiency in Israel's system of government.

One need not agree with Negbi's reading of the historical record or his emphasis on the "broken promise" of the Declaration of Independence with regard to the speedy adoption of a written constitution, in order to accept the judgment that an entrenched basic law, subjecting Knesset legislation to review by a constitutional court, would be an important step forward. The primary reason that a constitution was promised by the Declaration was the strong interest in conforming to the terms of the UN decision, the source of the legitimacy of the declaration itself. Even the data for the convening of the constituent assembly de-

(Continued on page 11)

The second Russian revolution

Mikhail Agursky discusses the significance of Gorbachev's comments this week on the excesses of the Stalin regime

GORBACHEV'S long-awaited speech lived up to expectations. The new Soviet political programme differs radically from previous official statements, although it has been implicitly present in Soviet political life, at least since the 1981-82 political debates.

Gorbachev dropped the idea of the inevitability of a Communist victory and the corresponding collapse of the West. He predicted the coexistence of the Socialist bloc and the West, which should learn to live together peacefully as a confrontation would only lead to the destruction of the world. In fact, all previous Soviet leaders also made statements appealing for such coexistence, but usually within the framework of the so-called ideological confrontation, a version of cold war. Gorbachev

has dropped the very idea of such confrontation.

He welcomed the international Communist movement, but not as a political force which should strive for political victory in their respective countries, but rather as an ingredient of social ferment which should improve Western society.

He declared solemnly that the age of the Comintern, the Cominform and even the obligatory international Communist conferences has passed for good. As a matter of principle, every Socialist country and every Communist party should be totally independent. According to him, this had been advocated in 1956, but the inertia of the past had blocked it. Now the Soviet leadership has no intention of imposing its will on other parties.

A REVOLUTIONARY concept in Gorbachev's speech was the recognition that socialism is not the only progressive force in the world, although he did not specify who else is progressive. He totally changed Soviet declaratory policy towards the Third World: not only did he not proclaim socialist transformation as the royal road for the Third World, but he ignored it. He stressed that national liberation movements must manifest themselves in the struggle for equal economic relations with the West, but not via socialist or pro-socialist revolutions. Gorbachev pointed out that present economic relations favour the West — the Third World suffers economically from the exchange of industrial Western goods for Third World agricultural products and mineral

resources.

Gorbachev was surprisingly lenient towards multinationals, which are usually the target of vicious Soviet attacks, only remarking that they should adapt to the new situation whereby Third World countries should improve their economic situation via the rich West, which enriches itself further at the expense of the Third World. It is, in fact, a consensus on the Third World which unites all countries and not only Soviet satellites. Gorbachev mentioned favourably all Third World regional organizations, including the Organization of American States, traditionally regarded by the USSR as a stronghold of American influence in Latin America.

He did not mention any regional conflict in the Third World, usually a regular feature Soviet leaders' speeches. The Middle East, Southern Africa and Central America were not mentioned as problems. Gorbachev stressed the present good relations with all Socialist countries, which certainly includes China and probably Albania.

A look at the sequence of guest speakers at the conference illustrates a point not apparent from the speech. The first speaker was Wojciech Jaruzelski, a reliable sign that Poland is now Gorbachev's model country. Totally surprising was Finnish President Mauno Koivisto as the third speaker. Traditionally, guests from non-Communist countries are invited to speak only after all Communist leaders have delivered their addresses. Considering that Koivisto is not even a socialist, there have obviously been some deep-rooted changes in Soviet priorities.

With regard to Soviet domestic

affairs, Gorbachev said that in 1985 the USSR had been in an economic pre-crisis situation. He added that there was a need not only for management reform, but also for deep structural changes, which could only mean a change in Soviet priorities and the relationship between military and civilian industries. He even used the term "reconversion" for the first time, indicating a reconversion of some parts of the military industry into the civilian. Although it has been apparent for some time that the USSR intended to do this, this was probably the first declaratory statement of this kind.

BUT THE MOST spectacular part of Gorbachev's speech was the official revision of Soviet history. It was the first public statement of a Soviet leader in which the Stalinist epoch was severely criticized. (Khrushchev's famous speech was made in secret and was never published in the USSR.)

Gorbachev went much further than Khrushchev. Actually, he de facto rehabilitated Nikolai Bukharin, one of the most prominent Bolshevik leaders who participated in the opposition to Stalin in 1928-29, was one of the accused at one of three open trials in 1936-38 and was executed. He has been regarded as one of the most sinister villains of Soviet history for almost 50 years.

Gorbachev transformed the Soviet official version of Trotskyism and Trotsky: he condemned Trotsky and his followers for wrong political and ideological behaviour, but dropped all accusations of treachery and conspiracy. Zinoviev and Kamenev were not accused of Trotskyism, but were accused for their support of Trotsky in 1925-27.



More importantly, Gorbachev declared that the Politburo had decided to appoint an ad hoc commission which would revise all open trials, which he defined as falsifications. This promises the formal rehabilitation of Kamenev, Zinoviev, Bukharin, Radek, Piatakov, Tomsky, Rykov, Rosengoltz, and many others.

Gorbachev declared solemnly that, in spite of Stalin's positive contributions to the Soviet state and party, it was impossible to forgive him and the crimes committed in his time. He added, for the first time, to these crimes the way in which collectivization was handled at the end of the 1920s and the beginning of the 1930s, even though it had been a vital step.

Also spectacular was his mention of the notorious "Doctors' Plot" in the list of Stalin's most sinister crimes. One might be surprised since the affair was reconsidered publicly in 1953. However, no Soviet leader has ever included it in official statements. As an indirect condemnation of Stalin's anti-Semitism, it is of great importance. Another

surprise was Gorbachev's admission that mistakes were made in Soviet foreign policy after World War II, although he insisted that the basic line had always been correct.

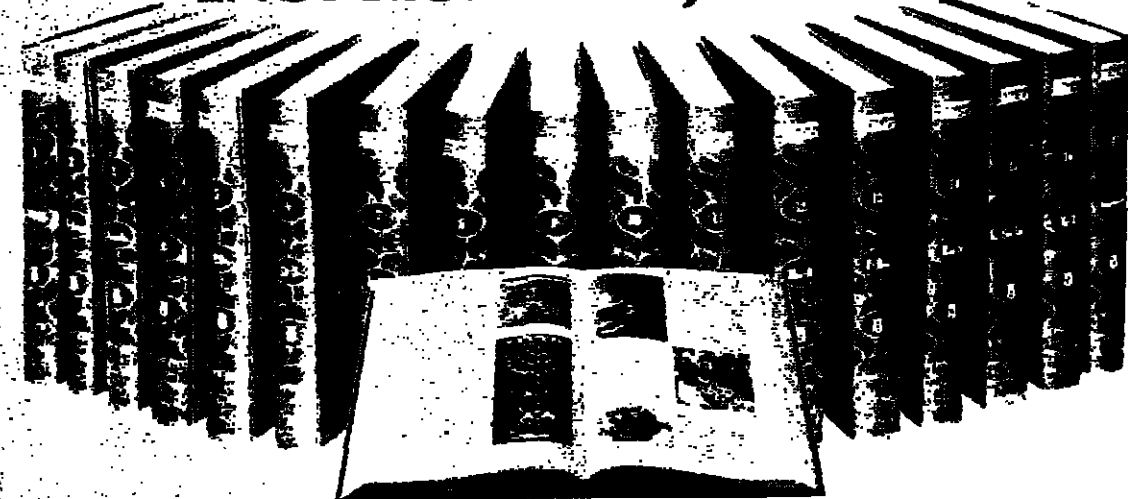
Gorbachev also brought Khrushchev in from the historical cold (he had not been mentioned officially at all after the October 1964 coup d'état in the Kremlin), although his evaluation of both Khrushchev and Brezhnev was rather ambivalent.

Gorbachev's historical revision will be followed by a total rewriting of Soviet history, changes in historical textbooks, the re-publication of encyclopedias, and so on. He did not mention all Soviet problems, including those of nationalities, mass alcoholism, and the Soviet moral crisis, but it is important to note that what he did say implied very radical change. Perhaps it is because they are not well-versed in Soviet history that many Western journalists did not fully grasp the implications of the speech.

The writer is a member of the Soviet and Eastern European Research Centre of the Hebrew University.

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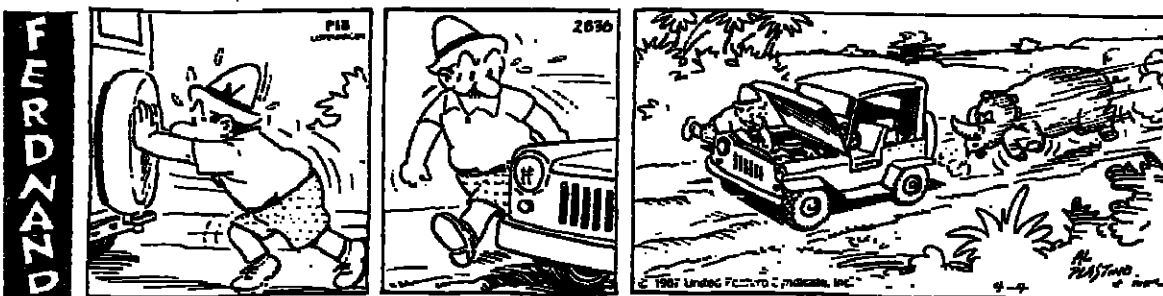
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Where have all the bank share millions gone?

By Shlomo Maoz

LAST FRIDAY, the government injected NIS 1.3 billion into the economy as it redeemed the bank shares in arrangement. This money was given to people who wanted to cut the linkage between their savings and the American dollar. After holding their bank shares as closed deposits for four years, investors realized that they had lost about 30 per cent of their money because their shares were pegged to the weaker dollar and because the government had frozen the exchange rate. The fact that an economic earthquake rocked world markets on the very day that these people had to make their decision caused many investors to abandon their dollar assets.

But others, with bank share holdings worth NIS 700 million, decided not to redeem their shares. Therefore their bank shares are now being traded on the Tel Aviv Stock Exchange and are due to reach maturity in two years. These people believe in the dollar, for otherwise they would have redeemed their bank shares by now.

Now they can only sell their shares in prices which are fixed every trading day on the stock exchange. Those still holding their shares in two years will have the right to full indexation of their savings without any interest. Apparently, the only advantage of these traded bank shares is their liquidity.

At the Treasury, some high-ranking officials anticipated that the interest rates would decline due to a bigger money supply. But at the Bank of Israel, they thought differently and acted accordingly. The result is that interest rates are still high — much higher than they should be under normal conditions, for example on "jumbo deposits" whose interest rates were raised this week. This proves once again that the promise of government withdrawal from financial markets is still far from realization.

WHAT HAVE investors done with the great bundle of money that they received? Many appear to have lost their faith in the American dollar. In a way it could be said that Israelis have come home — they prefer their government's umbrella. Saving schemes, linked to the level of domestic prices and with a yield of some 4 per cent in real terms, have become the most popular shelter for them. About NIS 850 million from the redeemed shares have been reinvested in those government guaranteed saving schemes.

What happened to the rest of the money? The Bank of Israel absorbed about NIS 600 million from the financial markets. First it took back about NIS 300 million that it had given to the commercial banks three weeks ago to bridge their immediate needs. A week ago, it absorbed another NIS 300 million by selling long-term, linked government debentures. At the same time, some people covered their overdrafts to avoid the high interest rates being charged by the banks.

Thus, in conclusion, the government injected a huge amount of money into the economy and the banks found themselves again without reserves to meet their obligation to their clients. The immediate result was higher interest rates.

The rumours that the government might devalue the shekel have already led to a bigger demand for credit. The demand for foreign currency, and especially for European currencies, has caused the black markets to flourish again. Those factors, and the Bank of Israel's policy of absorbing what it thought to be excess liquidity, have led to higher interest rates.

Once again we are isolated from the rest of the world. While other governments are reducing interest rates, we are the odd man out.

David Krivine says Israel must not expect special concessions from U.S. firms

Business is business even among good friends

ISRAEL'S FREE TRADE Agreement (FTA) with the U.S. promises good things — in the long term. In the short term it is a mirage. It makes Israelis believe they can, and therefore must, multiply their exports to America straightaway.

The conference on world trade between the two countries (a biennial event), held in Washington last month, was designed to "promote U.S.-Israel bilateral trade" (my italics).

Industry and Trade Minister Ariel Sharon told the gathering that Israel has to exploit the benefits of the FTA by stepping up its exports from 0.6 per cent of America's total imports to 1 per cent — which means raising our sales to that sub-continent by half.

This cannot be done, at least not at the present time. Sharon himself gave the reason at a meeting with Israeli pressmen during the conference. The profitability of Israel's exports to the world at large during July-September of this year averaged 9 per cent. Profitability of our sales to the U.S. was only 0.2 per cent.

The FTA misleads in giving the impression that the U.S. has opened its gates wide to Israeli exports. That is not the case. America is currently an import-rejecting economy. The trend is reflected in its exchange-rate policy. The progressive devaluation of the dollar makes it increasingly difficult for our suppliers to market goods there.

AMERICA'S PROBLEM is that it has a trade deficit with the outside world, which means that the outside world is running a trade surplus with America. As the dollar falls, so the trade-surplus currencies — the mark, yen, franc, pound sterling — rise. America imports too much; conversely, the other countries are importing too little.

It is they who must import more; they are the import-expanding economies. Israel should respond to these market forces by focusing its efforts on areas which are profitable. Its logical outlets today are Europe and the Far East, not the U.S.

Businessmen in Tel Aviv clamour for a devaluation of the shekel, or at least for a premium on dollar exports. The required devaluation is in fact taking place as the dollar falls, and Herbert Stein of the American Enterprise Institute, formerly chairman of the President's Council of Economic Advisers, told visiting Is-

raeli journalists that the dollar must continue to decline by another 20 per cent or so.

If that happens, the shekel will be devalued 100 — but in terms of the world's currencies, not in terms of the dollar. Our sales to Europe and the Far East will be boosted without any need for export premiums, while our sales to the U.S. are likely still to yield near-zero profitability.

THE U.S. ECONOMY is in trouble, but it is not in danger. The micro-economy is run as efficiently as before by the business sector. The macro-economy is (as in Israel) thoroughly mismanaged by the politicians in power.

Representative Sam Gibbons, an oppositionist Democrat from Florida, gave us the best interpretation so far of the stock-exchange crash.

"We have been living," he says, "above our means, and are now paying the price. A country as wealthy as the U.S. can make do with its own income and ought to be supplying capital to the world. Instead it has been borrowing from the world."

The Federal Budget was roughly in balance until President Reagan appeared on the scene. Gibbons estimates the budget deficit a year ago at \$250 billion, a higher figure than the \$220 billion officially announced. "When Reagan took office, our national debt was slightly less than one trillion dollars. He added another \$1.8 trillion during the 1980s. We have borrowed more under his administration than since the U.S. was founded."

"One of the biggest items in our budget today is interest on this debt. We used to pay it internally; now we pay it to everybody on earth. That has badly destabilized our currency. The dollar shot up under Reagan. We lost huge export markets because we had become non-competitive."

WHEN A GOVERNMENT overspends, everyone overspends. Stock-exchange prices soared above true asset value. A boom-time at-

mosphere prevailed, with giant salaries paid to young yuppies riding high on the abundance created by the flow of Treasury money into the economy.

The recent drop in the dollar is a corrective. So is the sag in share prices. The stock-exchange collapse has overshoot the mark; prices are likely eventually to settle at a more realistic level.

The dollar has dropped because America's foreign payments must be brought into balance. The world will not finance the Yankee trade-gap for ever. The Gramm-Rudman Act is forcing budgetary restraint. According to U.S. Trade Representative Clayton Yeutter, the Treasury deficit was down from \$220b. (the official figure) in 1985-86 to \$150b. in 1986-87, and another \$23b. must be shaved off this year.

This belt-tightening exercise has a very specific objective. The U.S. intends reducing its import surplus by all of \$180b. a year — and that does not include the cost of repaying borrowings which will be made in the intervening period until the shortfall in its foreign-currency accounts is eliminated. Prospects of increased sales in such a resistant market over the next few years are distinctly unfavourable, even for a small country like Israel.

Our officials are nevertheless determined to make the best of their arduously-negotiated FTA. They point out that if Israel's exporters find life hard as the dollar falls, their rivals from Europe and elsewhere find it harder still. The shekel is partly tied to the dollar, so it declines as the dollar declines. The mark and the yen do not decline; they keep going up. Israel's competitive situation is therefore improving, at least in relative terms, compared with the others.

The advantage to our salesmen from this juggling for position will not give them money in the bank. Still, it seems, the Israeli authorities try by continued bargaining to improve the terms of the FTA further.

SINCE SIGNING the agreement with Israel, the U.S. has concluded

another such treaty, with Canada. Zealous eyes reveal a number of minor concessions to the Canadians that the Israelis asked for and did not get.

A memorandum by the law firm advising the Israeli negotiators, Kaplan, Russin and Vecchi, lists four such concessions. The first concerns subsidies and dumping. The FTA specifies that free entry to the American market is allowed, on condition that there is fair competition with the local industry; in other words, that exports are not dumped, through government subsidization or in any other way.

Who is to decide whether the price charged is a dumping price or not? The Canadians were argumentative (given the protectionist trend in Congress) and secured the creation of a bi-national settlement panel, manned by two delegates from each side plus one impartial member. Its arbitration will be binding.

Secondly, and following on from this first provision, if there is dumping, the U.S. preserves the right to take "safeguard" measures. Existing laws empower the administration to impose countervailing duties where an export inflicts serious injury on competing American products.

Under the treaty with Canada, the U.S. will exempt Canadian supplies from the above duties unless deliveries are "substantial," that is, exceed 5 per cent of the total import, and unless they "contribute importantly" to serious injury.

The third problem concerns future trade laws which may supersede provisions in the FTA, cancelling important benefits. The Canadians are entitled to prior notice of such proposed legislation, so they can check that their shipments are excluded from any protectionist measures. Fourthly, Canada will be exempt from a 0.22 per cent surtax on imports.

Israel was given to understand that such terms would not be acceptable to Congress; yet they were embodied in the Canadian treaty, so why not in Israel's?

WE ASKED Yeutter whether Canada was not getting a better deal than Israel. He replied: "Canada does enjoy more benefits in our country, but then we get more benefits in theirs."

He continued: "If the Canadian treaty is ratified by both parliaments, it will set standards for agreements of this kind. We shall then be prepared to consider adaptations in the Israeli text — provided there is a quid pro quo."

He makes the valid point that the FTA is not an act of charity; it is a pact between two interested parties, and benefits have to be mutual. Questioned about procurement policy, which gives preference to government tenders to home-based American firms, Yeutter is ready to consider giving Israeli suppliers equal preference — provided again there is an equivalent return.

Congressman Gibbons is equally forthcoming. "The Canadian agreement was more difficult to ratify — by both sides — than the Israeli agreement," he said. Concerning the dispute-settlement mechanism: "If it works well, we should consider applying it to you too."

There is no lack of goodwill towards Israel in the U.S., but business is business; and that is how it should be. Special pleading is a waste of time. Israeli negotiators must understand that they have to behave like representatives of a sovereign state, not like poor relations.

One journalist asked Yeutter whether the serious-injury clause should apply to Israel's exports. They cannot be considered a threat to American industry, given that Israel is such a small country and its cargoes such a diminutive proportion of the total inflow.

Yeutter answered gravely that Israel is not the only small country exporting to the U.S. If exemptions are given out on grounds of size, the injury could be cumulative and American firms might be seriously affected, he pointed out.

Whether American firms in "sensitive" industries need protecting is another matter. Israel for its part must not expect or fish for special treatment. All concessions we get are given reciprocally, or in exchange for services, or as part of an alliance designed to achieve joint objectives. That is why the U.S.-Israel relationship is such a healthy one.

(This is the first of two articles.)

Liberalization: 'Israel didn't go far enough'

Ten years ago, the late finance minister Simcha Ehrlich decided on the big economic revolution in our economic history — the liberalization. The writer, Daniel Doron, with the assistance of Dr. Steven Plaut, interviewed Professor Milton Friedman recently, before the world financial market crash, in San Francisco. This is the first part of the interview.

THE AUTUMN of 1987 is the 10th anniversary of an unsuccessful attempt to free the Israeli economy from ubiquitous government intervention.

After 29 years in office, Labour was replaced in 1977 by a Likud right-wing coalition professing to support free enterprise. In October 1977, the Likud government dismantled many, but not all, of the prevailing foreign currency controls.

devalued the Israeli lira, instituted a floating rate of exchange, narrowed the range between the many prevailing rates of exchange and abolished several types of export subsidies.

Liberalization was welcomed by the many Israelis who were sick and tired of the obvious degeneration of their economic system. Many, including most economists, worried about how liberalization would affect Israel's two sacred cows — income distribution and equality. But most people, even those not supporting the Likud, agreed that market forces needed strengthening. Yet the liberalization process did not last long, despite popular support. Perhaps because it did not go far enough. It was soon accompanied by increasing inflation, and pressure developed to roll back those liberalization moves that had been enacted.

We thought it would be most appropriate that we clarify with the Nobel Laureate in Economics, Professor Milton Friedman, what actually happened.

Justly or not, Prof. Friedman has been perceived in Israel as the father of the Likud's liberalization programme. In a symposium held at

the Hebrew University's Department of Economics a month after the liberalization was instituted, the chairman, Professor Giora Hanoch, observed that only four months had passed since Professor Friedman had outlined a policy for floating the exchange rate in Israel and for the abolition of foreign exchange controls.

All those present, Professor Hanoch said, enjoyed the presentation and were impressed with the logic of his arguments, although few agreed with them. "But all of us considered the presentation as a mere intellectual exercise, a brilliant high-wire act. Few would have predicted that within a few months we would be discussing, after the fact, a policy that despite denials, follows very similar lines. Perhaps the policy was not far-reaching enough in all its directions, but it certainly followed the lines delineated by Milton Friedman."

DORON: Professor Friedman, can you clarify for us your role in the conception and execution of the liberalization policy instituted by the Likud government? Did you actually advise the Israeli government then, and were they really inspired

by your work?

FRIEDMAN: I would be very glad indeed to do so. The facts are very straightforward. I spent — I've forgotten whether it was six or 10 days in Israel — in order to receive an honorary degree from the Hebrew University, one which I cherish.

Q: So, you weren't invited by the Israeli government?

A: Oh, no, I wasn't invited. I have never been an adviser to the Israeli government in any sense other than as an individual who was very much concerned with the State of Israel and who believed very strongly, as I do now, that Israel is being strangled by its socialist measures.

It happened by chance that I came to Israel very shortly after the Begin government had come into office. And so, while I was there, I did have meetings with various people in the government, including a meeting of about a half-hour or three-quarters of an hour with prime minister Begin. I must say that I was very much impressed by Begin, but I was also impressed with the fact that economics was a subject in which he had zero interest.

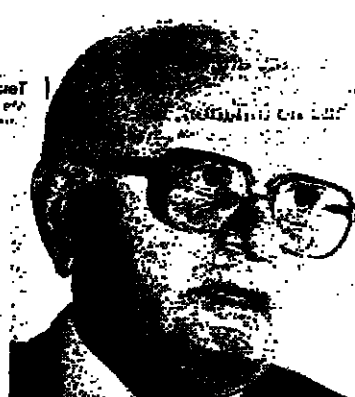
Begin is not the only great man who had no feel whatsoever for eco-

nomics. My favourite example is Winston Churchill. Winston Churchill was clearly a great man, but every time he touched an economic issue, he came down on the wrong side, from 1908 till he left office. And that was my impression of Begin when I left his office.

But at the same time, I did talk with various government officials who were in charge of the economy. The most memorable experience I can recall with great vividness is a meeting I held one morning with the people who were supposedly the movers and shakers in Israel: the secretary-general of the Histadrut, the president of your Manufacturers' Association, the head of your Bankers' Association and chairman of your agricultural marketing organization. And maybe there were one or two others, there were about six altogether.

I got the meeting off to a very good start by starting out as follows: I said, "Gentlemen, the major problem with a sensible economic policy in Israel is you gentlemen. You are the people who are the greatest obstacle to a sensible economic policy." And, unfortunately, I was right.

As to the question of liberaliza-



Simcha Ehrlich (Rubinger)



Milton Friedman (Braun)

tion, I have been in favour of the kind of policy that Hanoch described in the quote from him, of free markets, free exchange rates, getting rid of exchange controls. I've been in favour of that for many years. I wrote my first article in 1950, when I was in France in connection with the Common Market arrangements. And it is true that I gave a lecture in Israel on that subject. I hope it inspired and influenced them.

I believe the liberalization in the foreign exchange market was a very desirable thing. However, much more was needed. You cannot solve a major problem involving the economy as a whole by liberalizing in one area alone. It's better to liberalize

there than nowhere. I think the liberalization served a useful purpose. But, by itself it was incapable of achieving the objective of eliminating the stranglehold which government regulations, government intervention, then and now, has on the Israeli economy. I may go on to say that from that day on, I never talked with prime minister Begin. That was the only meeting I ever had with him.

Q: How about with the minister of finance?

A: I talked with the minister of finance when I was in Israel, and also

(Continued on opposite page)

The economic pages are edited by the Economic Editor of The Jerusalem Post, Shlomo Maoz

UNION BANK OF ISRAEL LTD. בנק אגוד ישראל בע"מ

(Member of Bank Leumi Le-Israel B.M. Group)

CONDENSED BALANCE SHEET AS AT 30TH SEPTEMBER 1987*

(NIS thousands)

	30.9.1987 (Unaudited)	30.6.1987 (Audited)	31.12.1986 (Audited)		30.9.1987 (Unaudited)	30.6.1987 (Audited)	31.12.1986 (Audited)
ASSETS				LIABILITIES			
Cash on hand and deposits				Deposits from banks	622,036	579,309	655,869
with Bank of Israel	706,329	719,902	653,474	Deposits of the public	1,453,653	1,454,887	1,380,477
Deposits with banks	627,846	577,987	740,101	Deposits for the granting			
Bonds for investment	9,796	17,887	18,237	of loans	184,665	196,128	187,504
Shares for investment	3,728	1,274	1,210	Non-convertible Capital Note	8,047	8,236	8,258
Securities for trading	695	756	448	Other liabilities	15,761	11,525	12,446
Loans to the Government	139,248	160,690	163,479	Total liabilities	2,284,182	2,250,085	2,244,554
Loans to the public	868,733	831,404	709,084	Shareholders' equity	103,254	96,001	81,449
Bank premises and equipment	20,266	20,626	22,130				
Other assets	10,795	15,560	17,840				
	2,387,436	2,346,086	2,326,003		2,387,436	2,346,086	2,326,003

CONDENSED STATEMENT OF PROFIT AND LOSS FOR THE PERIOD ENDED 30.9.1987*

Unaudited (NIS thousands)

Operating profit before taxation	47,343
Provision for taxation	25,591
Operating profit after taxation	21,752
The bank's equity in profit (loss) of subsidiaries and affiliates, net	53
Net profit for the period	21,805

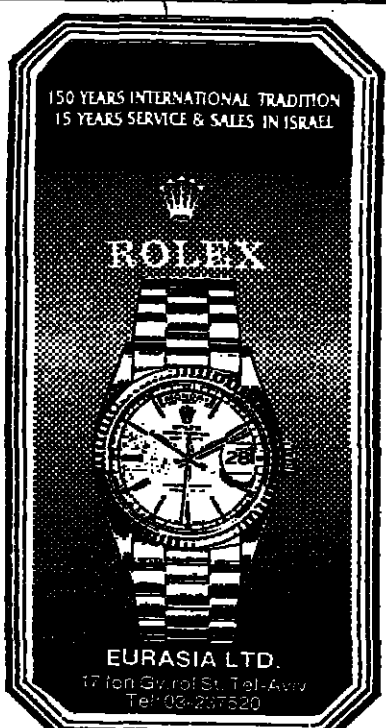
CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE PERIOD ENDED 30.9.1987*

Unaudited (NIS thousands)

	Share Capital	Surplus
Balance at the beginning of period	66,438	15,011
Net profit for the period		21,805
Balance at end of period	66,438	36,816

* Adjusted for the effect of inflation based on the September 1987 index.

The financial statements were prepared in accordance with the same accounting principles applied in the preparation of the audited annual financial statements as at 31.12.1986.



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ECONOMIC NEWS

Tax reform proposals due soon

By AVI TEMKIN
Post Economic Reporter

The Sheshinski committee on income tax reform will finish its deliberations in the coming weeks, and expects to present its recommendations to Finance Minister Moshe Nissim next month, the committee's chairman, Eitan Sheshinski, said yesterday.

The Treasury announced yesterday that the committee will soon finish hearing representatives from

the different sectors of the economy. The committee is expected to present recommendations on an extension of the tax reform started this year, which will bring a further reduction in tax rates and a broadening of the tax base.

The committee has so far held 35 meetings and received 220 requests from representatives of different sectors to express their views. The Treasury added that so far no final conclusions have been reached.

LIBERALIZATION--NOT ENOUGH

(Continued from preceding page)

with the Governor of the Bank of Israel. I was there that time. But, I subsequently returned home and had no contact whatsoever with them.

Q: Then your talks were more in the nature of general clarifications rather than actual designing of policy and its execution?

A: I have never decided whether to be annoyed or amused about the extent of influence that is attributed to me in various circumstances. The Israeli case is one. But the same thing has happened to me with Chile. I was in Chile for five days, that's the only contact I had with the Chilean government, and I was subsequently accused of running Chile from my office in Chicago.

Q: Indeed, in Israel they talk about Milton Friedman's economy, with a capital E, as if it were your doing. I was curious, however, about the remark you made about our pillars of the Israeli economy, why you thought these people were the problem, and how they reacted to it.

A: Because every one of them was in favour of eliminating the restraints on everybody else, but wanted to keep them on themselves. The representative of the Manufacturers' Association was all in favour of freeing up agriculture, of course. That was a good thing. But how about you? Oh, no, that's different. We're a special case. The head of the agricultural group was the same way, as was the head of the banking group. That's what I had in mind.

Let me add, that's a disease that is not restricted to Israel. The same thing is true in the United States. I believe that the greatest opponents of freeing the economy in the U.S. and every other country are the merchants and the manufacturers. And that's a view that I share with Adam Smith, who in 1776, in his great book, *The Wealth of Nations*, in speaking about the restraints on international trade, says that no body could ever believe that it made sense to restrain trade.

As he says, it's obvious to every household that it is in the household's interest to buy goods where it can buy them most cheaply, and sell them where it can sell them most dearly.

Nobody would ever have thought that that was wrong if it had not been (I don't guarantee the exact words) for the "interested sophistry of merchants and manufacturers." That remains no less true today than it did then. Every manufacturer, every businessman in the U.S., if you talk to him, will tell you that he's in favour of free markets, absolutely. But what about your industry? Oh, we're an exception; we need a tariff, or we need a subsidy, or we need government to give us some money for this, that or the other thing.

Q: The rate of Israel's liberalization policy is often cited as one of a number of similar failures. Papers have been written about the question of why economic liberalization schemes fail. Have such failures really occurred; if so, how can they be explained?

A: Of course, such failures have occurred! And they all have the same explanation: the attempt to rectify a major problem by changing one element. For example, you had a similar attempt in Brazil a little over a year ago, when the Brazilians freed the markets to a considerable extent. Actually, all they did was liberalize foreign exchange transactions. But at the same time, they made the mistake of imposing price and wage

controls. And it failed because it wasn't a serious attempt to solve the real problem. It was an attempt to solve a real problem by changing the cosmetics.

When liberalization has been accompanied by a broader range of measures it has always been a great success. The most recent and dramatic example of that was, of course, Great Britain, when Mrs. Thatcher became prime minister. Overnight, she wiped out exchange controls, price controls and wage controls. And she proceeded on the basis of more stringent monetary and budgetary policies.

And, of course, it's very hard to solve a major problem without some transitional difficulties. Great Britain has had some transitional difficulties, but it's now emerging from that. Inflation has come way down and the British economy has been growing at a more rapid rate than any economy in Europe.

Another more recent and even more dramatic example is that of New Zealand, where a Labour government replaces a Conservative government. And what does the Labour government do? It eliminates exchange controls. It eliminates price and wage controls. It frees up the banking system. It lets interest rates go.

The New Zealand programme is the most extensive free-market programme adopted by almost any country, and by a Labour government. And that Labour government has just been re-elected, incidentally. So there's another argument that people often make that liberalization is not politically popular. That depends on how it's done.

STEPHEN PLAUT: Is it true that liberalization of the Thatcher or New Zealand style must necessarily lead to an extended period of high unemployment?

FRIEDMAN: It need not lead to an extended period of unemployment. But there's an old saying that you can't make an omelette without breaking some eggs. It's not the liberalization that produces the unemployment. What produces a temporary period of unemployment is almost always the attempt to reduce inflation.

If you had no inflation, liberalization would add to employment. You mustn't confuse the two things. A free market is a market in which people have wider opportunities, in which they can get better wages, in which there are more opportunities for employment. On the other hand, if you've been in a system in which you have been going on an inflationary regime and people are expecting prices to keep rising, and you have a transition to a lower rate of inflation -- in a way in which people can't be absolutely confident it is going to be maintained -- then I do not know of any experience of going from inflation to disinflation in which you have not had a temporary period of somewhat higher unemployment.

The British case is rather exceptional, because the very high rate of unemployment that has occurred there is partly, to a considerable measure, a consequence of the welfare arrangements in Britain. That means that people are better off being unemployed than employed unless they can earn a relatively high wage. It's a very silly system.

Now, in the U.S., which is a very good example of the opposite, we went from an inflation of 15%-18% a year to a rate currently of two-three-four per cent. In the process, we experienced a temporary period of unemployment in 1982. But over the period as a whole, the economy has added something like 10 to 12 million jobs. But an interval of higher unemployment is inescapable in breaking the back of inflation.

DORON: This is because inflation also distorts the allocation of resources, and the re-arrangement has to imply a shift from one area to another.

FRIEDMAN: That's true. Q: Couldn't it be mitigated somewhat if labour markets weren't so rigid?

A: There's no doubt about that. I've always cited Israel as a marvellous example of another point. People say that in a place like the U.S. people don't go for socialism because there's so much propaganda against it. I've always pointed to the case of Israel, where the situation is the reverse. The kibbutz is the highest thing in the world from the point of view of prestige. Yet, I understand that at no time have more than five per cent of Israelis been interested in joining kibbutzim, although there was no obstacle to such a move.

The writer is the manager of the Israel Centre for Social and Economic Progress.

(This is the first in a series based on the interview with Prof. Friedman.)

GDP will rise 4 per cent this year

BY AVI TEMKIN
Post Economic Reporter

The country's Gross Domestic Product will register an increase of about 4 per cent in 1987, according to preliminary estimates by the Central Bureau of Statistics. The GDP of the business sector is expected to rise by 5 per cent, according to the same estimates.

Speaking yesterday at a press conference in Jerusalem, Government Statistician Moshe Siron said growth was visible in almost all of the economy's sectors. Industrial output is expected to grow by 7 per cent this year. Agricultural output is expected to increase by 6 per cent. Even the construction sector, which had remained stagnant for a few years, will register a rise of about 7 per cent in 1987, he said.

Siron presented the Statistical Abstract of Israel for 1987. He said that the bureau estimates that Israel's population will rise by 1.2 per cent this year, compared to 1.8 per cent in the early years of the decade. He added that in 1987 a negative migration balance is expected. The number of emigrants is expected to exceed the one for immigrants by 2,000 to 3,000.

The CBS estimated Israel's population at beginning of this month at



Moshe Siron (Karen Ben-Zion)

about 4,380,000 persons. The number of Jews totalled 3.6m., some 82 per cent of the total. The number of Moslems totalled 604,000, 13.8 per cent of the total. Christians totalled 101,000, 2.3 per cent of the population, and the number of Druse was 74,000, 1.7 per cent of the number of inhabitants.

Israel's Jewish population during 1987 rose by about 1.2 per cent, Siron said. He said that the rate of increase of the Arab population was about double the figure for Jews. But Siron indicated the slowdown

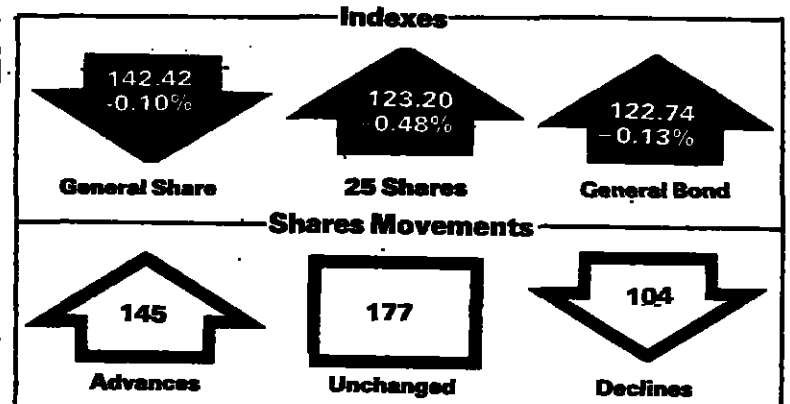
in the pace of increase of Israel's Arab population was also visible in 1987, as it had been in the last decade. Fertility in the Arab sector has gone down from 9 to 10 children for one woman 15 years ago to some 4 to 5 in 1987.

If the present trends in population growth are to continue, the number of inhabitants will reach 5.2 to 5.5 million and in 2010 there will be 5.7 to 6.5 million persons in Israel. In the year 2000 the share of Jews in the total population will reach 78 per cent, and in 2010 it will be 76 per cent. These figures do not take into account the population in the administered territories.

The abstract revealed that some 1.6 million persons, about 37.5 per cent of the total population, lived in 1986 in the metropolitan Tel Aviv area. Jerusalem's population totalled 470,000, about 11 per cent of the total, and about 390,000 resided in metropolitan Haifa. Some 57 per cent of the total population of Israel lived in the three largest cities.

Internal migration brought in 1986 an increase of 6000 in the central districts of the country--the Sharon, Petah Tikva and Rehovot areas. The population in the north went down by about 3,000 in the same period.

Tel Aviv Stock Exchange



Statistics

Stock Indices	Value	% Change
General Share (incl. argmt.)	126.88	+0.37%
Non-argmt.	126.84	-0.10%
Arrangement Banks	121.28	+0.58%
Mortgage Banks	134.48	+0.88%
Financial Inst.	114.87	+0.10%
Insurance	127.08	+0.17%
Commerce & Services	127.02	+0.75%
Real Estate & Agric.	116.57	+0.40%
Industrials	121.70	+0.27%
Food & Tobacco	104.64	-0.31%
Textiles	108.08	+0.08%
Electronics	112.85	-0.19%
Chemicals	134.94	+0.45%
Industrial Invest.	122.25	+0.10%
Investment Cos.	144.64	+0.43%
Oil Exploration	98.63	-0.82%
Foreign List	71.63	+0.59%

Bond Indices

Bond Indices	Value	% Change
Index-linked Bonds	122.69	+0.15%
Fully linked	125.20	+0.12%
Partially linked	118.14	+0.24%
Foreign Currency	118.51	+0.00%
FC denominated	114.87	+0.10%
FC linked	121.88	-0.05%
Short-term 0-2 yrs	117.32	+0.25%
Short-medium 2-5 yrs	122.25	+0.10%
Medium-long 5-7 yrs	125.80	-0.11%
Long-term 7+ yrs	127.63	+0.18%

Turnovers

Turnovers	Value	% Change
Total Shares	NIS 21,238.0	
Non-arrangement	NIS 7,028.3	
Arrangement	NIS 14,209.7	
Bonds	NIS 5,410.4	
Treasury Bills	NIS 5,941.4	

Share Movements

Share Movements	Value	% Change
Advances of which 5%+	145	(28)
Declines	22	(7)
Unchanged	1	(3)
of which 5%+	14	(28)
Advances of which 5%+	1	(3)
Declines	46	(45)
Unchanged	1	(3)

Bond Market Trends

Bond Market Trends	Value	% Change
Index-linked:		
3% fully linked	Mixed to 1%	
4.5% fully linked	Stable to 1%	
80% linked	Stable	
Double linked:		
Rimor	Rises to 3%	
Mixed to 1%	Mixed to 1%	
FC denominated	Stable/highly mixed	
T-bills	15.30-16.70%	

Arrangement Yields

Arrangement Yields	Value	% Change
IDB ord.	10.39%	
Prime rate	9.91%	
Discount A	10.88%	
Mazari R.	11.10%	
Hapson R.	10.78%	
General A.	11.14%	
Leumi Stock	11.52%	
Fin. Trade I	n.t.	

25 Shares

25 Shares	Value	% Change
Name	Price	% Change
First Internet	2232	+0.25%
Hessner R.	251	+0.17%
Clal Trading	447	+0.10%
Supersol B.	6868	+0.75%
Delia R.	2486	+0.50%
Africa-Int. 1.0	38530	+0.25%
Azomim	1025	+0.10%
Prop. & Building	2874	+0.10%
ILDC R.	70031	+0.25%
Clal Estate	738	+0.10%
Elita	15522	+0.75%
Polign R.	947	+0.10%
Is. Can Co. 0.1	4430	+0.50%
Elron	225713	+0.50%
Telcel	10728	+0.50%
Dead Sea	1256	+1.00%
Portchem	35747	+0.50%
APM	13415	+0.10%
Central Trade	241	+0.10%
Clal Industries	6103	+0.10%
IDB Develop.	1032	+0.10%
Elitron	4432	+0.10%
Discount Invest	2280	+0.10%
Clal 1.0	1285	+1.25%

Real Estate, Building and Agriculture

Real Estate, Building and Agriculture	Value	% Change
Al-Rov	340	+2.4
Africa Int. 0.1	44900	+1.7
Azomim	2302	+2.5
Delia R.	6868	+1.0
Y.E.C.	308	+0.8
Bayle 0.1	4800	+1.8
Is. Can Co. 0.1	18008	+1.5
Azomim Prop.	349	+0.8
Machadim	6285	+2.3
Machadim Prop.	1886	+2.7

Industrials

Industrials	Value	% Change
Dubak	4380	+2.9
Tempo 1.0	30700	+7.3

Abbreviations:

Abbreviations:	Meaning
n.t.	not trading
b. boarder	not available
n.a.	not available

Israel Money Markets

Shelak Deposits (annual rates)	Deposit Size	Rate	7 days	14 days	30 days
Bank	Up to 1,000	7.00	7.00	7.00	7.00
Leumi (Nov. 5)	1,000-10,000	12.50	14.00	15.50	15.50
	10,001-50,000	12.75	14.75	16.25	16.25
	50,001-100,000	13.00	15.00	16.50	16.50
	100,001-500,000	13.50	15.50	17.00	17.00
Hapoalim (Sept. 7)	Up to 500	6.00	8.00	8.50	8.50
	500-1,000	11.00	11.00	11.50	11.50
	1,000-50,000	11.50	12.50	13.50	13.50
	50,000+	12.00	12.00	12.50	12.50
Discount (Nov. 4)	50-500	8.00	7.00	8.00	10.00
	1,000-5,000	12.00	12.00	12.00	16.00
	5,000-50,000	14.00	14.00	15.00	17.00
	50,000-50,000	14.00	14.00	15.00	17.00
	100,000+	15.00	16.00	16.50	17.50
Mizrahi	40-2,000	9.00	9.00	9.00	9.00
	2,001-4,000	11.00	11.00	11.00	11.00
	4,001-10,000	12.50	12.50	12.50	14.00
	10,001-50,000	13.00	14.00	14.00	18.00
	50,001-100,000	13.50	14.50	14.50	18.50
	100,001-500,000	14.00	15.00	15.00	19.00
First Int'l (Oct. 4)	50-500	8.50	8.50	8.50	8.50
	1,000-4,999	11.00	11.50	12.00	14.50
	5,000-50,000	11.50	12.00	12.50	15.00
	50,000+	12.50	12.50	13.00	15.50
*NIS 2,000-4,000 **4,001-15,000					

Patah (foreign currency deposit rates, Nov. 5)	3 MONTHS	6 MONTHS	12 MONTHS
U.S. dollar (\$100,000)	7.000	7.000	7.375
Pound sterling (£100,000)	7.625	7.625	7.825
Deutsche Mark (DM 200,000)	3.125	3.125	3.375
Swiss franc (SF 200,000)	2.750	2.750	2.750
Yen (1 million yen)	3.125	3.125	3.125
SOURCE: BANK LEUMI. Rates vary according to size of deposit.			

Shelak Foreign Exchange Rates (Nov. 5)

Currency	Buy	Sell	Banknotes	Buy	Sell	Rep. Rate
U.S. dollar	1.8710	1.7020	1.52	1.52	1.52	1.52
Deutsche Mark	0.5777	0.5777	0.90	0.90	0.90	0.90
Pound sterling	2.7472	2.7472	2.80	2.80	2.80	2.80
French franc	0.2725	0.2725	0.28	0.28	0.28	0.28
Japanese yen (100)	1.1711	1.1711	1.12	1.12	1.12	1.12
Dutch florin	0.8172	0.8172	0.84	0.84	0.84	0.84
Swiss franc	1.1182	1.1182	0.25	0.25	0.25	0.25
Swedish krona	0.2551	0.2551	0.25	0.25	0.25	0.25
Norwegian krona	0.2431	0.2431	0.24	0.24	0.24	0.24
Denmark krone	0.2380	0.2380	0.23	0.23	0.23	0.23
Finland mark	0.2720	0.2720	0.28	0.28	0.28	0.28
Canadian dollar	1.1885	1.1885	1.14	1.14	1.14	1.14
Australian dollar	1.0515	1.0515	0.99	0.99	0.99	0.99
S. African rand	0.7085	0.7085	0.51	0.51	0.51	0.51
Belgian franc (10)	0.4385	0.4385	0.43	0.43	0.43	0.43
Netherlands guilder (10)	1.2337	1.2337	1.27	1.27	1.27	1.27
Swiss franc (SF 200,000)	1.2425	1.2425	1.21	1.21	1.21	1.21
Jordanian dinar	n.t.	n.t.	4.29	4.29	4.29	4.29
Egyptian pound	1.8824	1.8824	0.66	0.66	0.66	0.66
ECU	2.4348	2.4348	2.38	2.38	2.38	2.38
Irish punt	1.3712	1.3712	1.33	1.33	1.33	1.33
Spanish peseta (100)	n.t.	n.t.	1.42	1.42	1.42	1.42
SOURCE: BANK LEUMI.						

Foreign Markets

EUROPEAN FINANCIAL MARKETS (Nov. 5)

Precious Metals	Libor Rates
Gold London a.m. fix	459.70
London p.m. fix	457.55
Paris noon fix	457.55
Zurich spot fix	457.00
Spot fix	457.00
Spanish peseta (100)	16.50
SOURCE: MARINE MIDLAND BANK	

Foreign Currency Crossrates (London 15:30 GMT)

Forward rates	NIS 21,238.0	Forward rates	Spot	3 months	6 months	12 months
management	NIS 7,028.3	Pound sterling	1.7710/20	72/87	128/21	200/190
management	NIS 14,208.7	Deutsche Mark	1.6912/22	142/137	284/278	555/545
management	NIS 5,410.4	Swiss franc	1.3800/20	134/127	262/242	560/510
Billis	NIS 2,947.4	Dutch florin	1.8910/25	171/170	217/210	470/450
		French franc	1.3600/20	109/100	248/230	750/680
		Japanese yen	135.30/40	100/200	250/280	630/510
h Movements		Italian lira	1236.0/10	140/170	250/290	480/550
	145 (39)	Belgian franc	35.25/50	29/16		
	22 (7)	American dollar	1.3300/10	39/42	85/100	127/150
only	1 (31)	ECU	1.2235/40	98/45	15/20	55/85
	10 (28)	S. African rand	0.5033/43	12/5	60/42	
only	13 (4)	Australian schilling	11.81/83	8/6	16/12	33/24
only	2 (45)	Swedish krona	0.0750/00	325/385	700/780	1340/1435
	46 (45)	Norwegian krona	0.3850/50	1110/1150	2150/2210	2850/2940
		Danish krona	6.4875/25	350/480	775/875	1400/1600
Market Trends						
		Share indices				

Where have all the bank share millions gone?

By Shlomo Maoz

LAST FRIDAY, the government injected NIS 1.3 billion into the economy as it redeemed the bank shares in arrangement. This money was given to people who wanted to cut the linkage between their savings and the American dollar. After holding their bank shares as closed deposits for four years, investors realized that they had lost about 30 per cent of their money because their shares were pegged to the weaker dollar and because the government had frozen the exchange rate. The fact that an economic earthquake rocked world markets on the very day that these people had to make their decision caused many investors to abandon their dollar assets.

But others, with bank share holdings worth NIS 700 million, decided not to redeem their shares. Therefore their bank shares are now being traded on the Tel Aviv Stock Exchange and are due to reach maturity in two years. These people believe in the dollar, for otherwise they would have redeemed their bank shares by now.

Now they can only sell their shares in prices which are fixed every trading day on the stock exchange. Those still holding their shares in two years will have the right to full indexation of their savings without any interest. Apparently, the only advantage of these traded bank shares is their liquidity.

At the Treasury, some high-ranking officials anticipated that the interest rates would decline due to a bigger money supply. But at the Bank of Israel, they thought differently and acted accordingly. The result is that interest rates are still high — much higher than they should be under normal conditions, for example on "jumbo deposits" whose interest rates were raised this week. This proves once again that the promise of government withdrawal from financial markets is still far from realization.

WHAT HAVE investors done with the great bundle of money that they received? Many appear to have lost their faith in the American dollar. In a way it could be said that Israelis have come home — they prefer their government's umbrella. Saving schemes, linked to the level of domestic prices and with a yield of some 4 per cent in real terms, have become the most popular shelter for them. About NIS 850 million from the redeemed shares have been reinvested in those government guaranteed saving schemes.

What happened to the rest of the money? The Bank of Israel absorbed about NIS 600 million from the financial markets. First it took back about NIS 300 million that it had given to the commercial banks three weeks ago to bridge their immediate needs. A week ago, it absorbed another NIS 300 million by selling long-term, linked government debentures. At the same time, some people covered their overdrafts to avoid the high interest rates being charged by the banks.

Thus, in conclusion, the government injected a huge amount of money into the economy and the banks found themselves again without reserves to meet their obligation to their clients. The immediate result was higher interest rates.

The rumours that the government might devalue the shekel have already led to a bigger demand for credit. The demand for foreign currency, and especially for European currencies, has caused the black markets to flourish again. Those factors, and the Bank of Israel's policy of absorbing what it thought to be excess liquidity, have led to higher interest rates.

Once again we are isolated from the rest of the world. While other governments are reducing interest rates, we are the odd man out.

David Krivine says Israel must not expect special concessions from U.S. firms

ISRAEL'S FREE TRADE Agreement (FTA) with the U.S. promises good things — in the long term. In the short term it is a mirage. It makes Israelis believe they can, and therefore must, multiply their exports to America straightaway.

The conference on world trade between the two countries (a biennial event), held in Washington last month, was designed to "promote U.S.-Israel bilateral trade" (my italics).

Industry and Trade Minister Ariel Sharon told the gathering that Israel has to exploit the benefits of the FTA by stepping up its exports from 0.6 per cent of America's total imports to 1 per cent — which means raising our sales to that sub-continent by half.

This cannot be done, at least not at the present time. Sharon himself gave the reason at a meeting with Israeli pressmen during the conference. The profitability of Israel's exports to the world at large during July-September of this year averaged 9 per cent. Profitability of our sales to the U.S. was only 0.2 per cent.

The FTA misleads in giving the impression that the U.S. has opened its gates wide to Israeli exports. That is not the case. America is currently an import-rejecting economy. The trend is reflected in its exchange-rate policy. The progressive devaluation of the dollar makes it increasingly difficult for our suppliers to market goods there.

AMERICA'S PROBLEM is that it has a trade deficit with the outside world, which means that the outside world is running a trade surplus with America. As the dollar falls, so the trade-surplus currencies — the mark, yen, franc, pound sterling — rise. America imports too much; conversely, the other countries are importing too little.

It is they who must import more; they are the import-expanding economies. Israel should respond to these market forces by focusing its efforts on areas which are profitable. Its logical outlets today are Europe and the Far East, not the U.S.

Businessmen in Tel Aviv clamour for a devaluation of the shekel, or at least for a premium on dollar exports. The required devaluation is in fact taking place as the dollar falls, and Herbert Stein of the American Enterprise Institute, formerly chairman of the President's Council of Economic Advisors, told visiting Is-

Business is business even among good friends

Israeli journalists that the dollar must continue to decline by another 20 per cent or so.

If that happens, the shekel will be devalued too — but in terms of the world's currencies, not in terms of the dollar. Our sales to Europe and the Far East will be boosted without any need for export premiums, while our sales to the U.S. are likely still to yield near-zero profitability.

THE U.S. ECONOMY is in trouble, but it is not in danger. The micro-economy is run as efficiently as before by the business sector. The macro-economy is (as in Israel) thoroughly mismanaged by the politicians in power.

Representative Sam Gibbons, an oppositionist Democrat from Florida, gave us the best interpretation so far of the stock-exchange crash.

"We have been living," he says, "above our means, and are now paying the price. A country as wealthy as the U.S. can make do with its own income and ought to be supplying capital to the world. Instead it has been borrowing from the world."

The Federal Budget was roughly in balance until President Reagan appeared on the scene. Gibbons estimates the budget deficit a year ago at \$250 billion, a higher figure than the \$220 billion officially announced.

"When Reagan took office, our national debt was slightly less than one trillion dollars. He added another \$1.8 trillion during the 1980s. We have borrowed more under his administration than since the U.S. was founded."

"One of the biggest items in our budget today is interest on this debt. We used to pay it internally; now we pay it to everybody on earth. That has badly destabilized our currency. The dollar shot up under Reagan. We lost huge export markets because we had become non-competitive."

WHEN A GOVERNMENT overspends, everyone overspends. Stock-exchange prices soared above true asset value. A boom-time at-

mosphere prevailed, with giant salaries paid to young yuppies riding high on the abundance created by the flow of Treasury money into the economy.

The recent drop in the dollar is a corrective. So is the sag in share prices. The stock-exchange collapse has overshoot the mark: prices are likely eventually to settle at a more realistic level.

The dollar has dropped because America's foreign payments must be brought into balance. The world will not finance the Yankee trade-gap for ever. The Gramm-Rudman Act is forcing budgetary restraint. According to U.S. Trade Representative Clayton Yeutter, the Treasury deficit was down from \$220b. (the official figure) in 1985-86 to \$150b. in 1986-87, and another \$25b. must be shaved off this year.

This belt-tightening exercise has a very specific objective. The U.S. intends reducing its import surplus by all of \$180b. a year — and that does not include the cost of repaying borrowings which will be made in the intervening period until the shortfall in its foreign-currency accounts is eliminated. Prospects of increased sales in such a resistant market over the next few years are distinctly unfavourable, even for a small country like Israel.

Our officials are nevertheless determined to make the best of their awkwardly-negotiated FTA. They point out that if Israel's exporters find life hard as the dollar falls, their rivals from Europe and elsewhere find it harder still. The shekel is partly tied to the dollar, so it declines as the dollar declines. The mark and the yen do not decline: they keep going up. Israel's competitive situation is therefore improving, at least in relative terms, compared with the others.

The advantage to our salesmen from this juggling for position will not give them money in the bank. Still, it seems, the Israeli authorities try by continued bargaining to improve the terms of the FTA further.

SINCE SIGNING the agreement with Israel, the U.S. has concluded

another such treaty, with Canada. Zealous eyes reveal a number of minor concessions to the Canadians that the Israelis asked for and did not get.

A memorandum by the law firm advising the Israeli negotiators, Kaplan, Russin and Vecchi, lists four such concessions. The first concerns subsidies and dumping. The FTA specifies that free entry to the American market is allowed, on condition that there is fair competition with the local industry; in other words, that exports are not dumped, through government subsidization or in any other way.

Who is to decide whether the price charged is a dumping price or not? The Canadians were argumentative (given the protectionist trend in Congress) and secured the creation of a bi-national settlement panel, manned by two delegates from each side plus one impartial member. Its arbitration will be binding.

Secondly, and following on from this first provision, if there is dumping, the U.S. preserves the right to take "safeguard" measures. Existing laws empower the administration to impose countervailing duties where an export inflicts serious injury on competing American products.

Under the treaty with Canada, the U.S. will exempt Canadian supplies from the above duties unless deliveries are "substantial," that is, exceed 5 per cent of the total import, and unless they "contribute importantly" to serious injury.

The third problem concerns future trade laws which may supersede provisions in the FTA, cancelling important benefits. The Canadians are entitled to prior notice of such proposed legislation, so they can check that their shipments are excluded from any protectionist measures. Fourthly, Canada will be exempt from a 0.22 per cent user's fee on imports.

Israel was given to understand that such terms would not be acceptable to Congress; yet they were embodied in the Canadian treaty, so why not in Israel's?

WE ASKED Yeutter whether Canada was not getting a better deal than Israel. He replied: "Canada does enjoy more benefits in our country, but then we get more benefits in theirs."

He continued: "If the Canadian treaty is ratified by both parliaments, it will set standards for agreements of this kind. We shall then be prepared to consider adaptations in the Israeli text — provided there is a quid pro quo."

He makes the valid point that the FTA is not an act of charity; it is a pact between two interested parties, and benefits have to be mutual. Questioned about procurement policy, which gives preference in government tenders to home-based American firms, Yeutter is ready to consider giving Israeli suppliers equal preference — provided again there is an equivalent return.

Congressman Gibbons is equally forthcoming. "The Canadian agreement was more difficult to ratify — by both sides — than the Israeli agreement," he said. Concerning the dispute-settlement mechanism: "If it works well, we should consider applying it to you too."

There is no lack of goodwill towards Israel in the U.S., but business is business; and that is how it should be. Special pleading is a waste of time. Israeli negotiators must understand that they have to behave like representatives of a sovereign state, not like poor relations.

One journalist asked Yeutter whether the serious-injury clause should apply to Israel's exports. They cannot be considered a threat to American industry, given that Israel is such a small country and its cargoes such a diminutive proportion of the total inflow.

Yeutter answered gravely that Israel is not the only small country exporting to the U.S. If exemptions are given out on grounds of size, the injury could be cumulative and American firms might be seriously affected, he pointed out.

Whether American firms in "sensitive" industries need protecting is another matter. Israel for its part must not expect or fish for special treatment. All concessions we get are given reciprocally, or in exchange for services, or as part of an alliance designed to achieve joint objectives. That is why the U.S.-Israel relationship is such a healthy one.

(This is the first of two articles.)

Liberalization: 'Israel didn't go far enough'

Ten years ago, the late finance minister Simcha Ehrlich decided on the biggest economic revolution in our economic history — the liberalization. The writer, Daniel Doron, with the assistance of Dr. Steven Plaut, interviewed Professor Milton Friedman recently, before the world financial market crash, in San Francisco. This is the first part of the interview.

THE AUTUMN of 1987 is the 10th anniversary of an unsuccessful attempt to free the Israeli economy from ubiquitous government intervention.

After 29 years in office, Labour was replaced in 1977 by a Likud right-wing coalition professing to support free enterprise. In October 1977, the Likud government dismantled many, but not all, of the prevailing foreign currency controls.

devalued the Israeli lira, instituted a floating rate of exchange, narrowed the range between the many prevailing rates of exchange and abolished several types of export subsidies.

Liberalization was welcomed by the many Israelis who were sick and tired of the obvious degeneration of their economic system. Many, including most economists, worried about how liberalization would affect Israel's two sacred cows — income distribution and equality. But most people, even those not supporting the Likud, agreed that market forces needed strengthening. Yet the liberalization process did not last long, despite popular support. Perhaps because it did not go far enough. It was soon accompanied by increasing inflation, and pressure developed to roll back those liberalization moves that had been enacted.

We thought it would be most appropriate that we clarify with the Nobel Laureate in Economics, Professor Milton Friedman, what actually happened.

Justly or not, Prof. Friedman has been perceived in Israel as the father of the Likud's liberalization programme. In a symposium held at

the Hebrew University's Department of Economics a month after the liberalization was instituted, the chairman, Professor Giora Hanoch, observed that only four months had passed since Professor Friedman had outlined a policy for floating the exchange rate in Israel and for the abolition of foreign exchange controls.

All those present, Professor Hanoch said, enjoyed the presentation and were impressed with the logic of his arguments, although few agreed with them. "But all of us considered the presentation as a mere intellectual exercise, a brilliant high-wire act. Few would have predicted that within a few months we would be discussing, after the fact, a policy that despite denials, follows very similar lines. Perhaps the policy was not far-reaching enough in all its directions, but it certainly followed the lines delineated by Milton Friedman."

DORON: Professor Friedman, can you clarify for us your role in the conception and execution of the liberalization policy instituted by the Likud government? Did you actually advise the Israeli government then, and were they really inspired

by your work?

FRIEDMAN: I would be very glad indeed to do so. The facts are very straightforward. I spent — I've forgotten whether it was six or 10 days in Israel — in order to receive an honorary degree from the Hebrew University, one which I cherish.

Q: So, you weren't invited by the Israeli government? A: Oh, no. I wasn't invited. I have never been an adviser to the Israeli government in any sense other than as an individual who was very much concerned with the State of Israel and who believed very strongly, as I do now, that Israel is being strangled by its socialist measures.

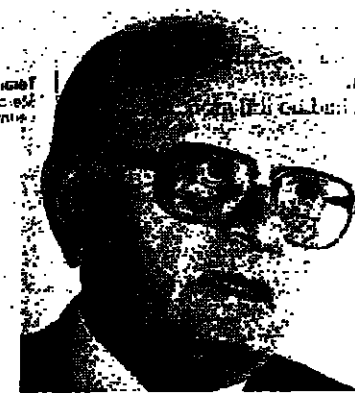
It happened by chance that I came to Israel very shortly after the Begin government had come into office. And so, while I was there, I did have meetings with various people in the government, including a meeting of about a half-hour or three-quarters of an hour with prime minister Begin. I must say that I was very much impressed by Begin, but I was also impressed with the fact that economics was a subject in which he had zero interest.

Begin is not the only great man who had no feel whatsoever for eco-

nomics. My favourite example is Winston Churchill. Winston Churchill was clearly a great man, but every time he touched an economic issue, he came down on the wrong side, from 1908 till he left office. And that was my impression of Begin when I left his office.

But at the same time, I did talk with various government officials who were in charge of the economy. The most memorable experience I can recall with great vividness is a meeting I held one morning with the people who were supposedly the movers and shakers in Israel: the secretary-general of the Histadrut, the president of your Manufacturers' Association, the head of your Bankers' Association and chairman of your agricultural marketing organization. And maybe there were one or two others, there were about six altogether.

I got the meeting off to a very good start by stating out as follows: "Gentlemen, the major problem in Israel is you gentlemen. You are the people who are the greatest obstacle to a sensible economic policy." And, unfortunately, I was right. As to the question of liberaliza-



Simcha Ehrlich (Rubinger)



Milton Friedman (Braun)

tion, I have been in favour of the kind of policy that Hanoch described in the quote from him, of free markets, free exchange rates, getting rid of exchange controls. I've been in favour of that for many years. I wrote my first article in 1950, when I was in France in connection with the Common Market arrangements. And it is true that I gave a lecture in Israel on that subject. I hope it inspired and influenced them.

I believe the liberalization in the foreign exchange market was a very desirable thing. However, much more was needed. You cannot solve a major problem involving the economy as a whole by liberalizing in one area alone. It's better to liberalize

there than nowhere. I think the liberalization served a useful purpose. But, by itself it was incapable of achieving the objective of eliminating the stranglehold which government regulations, government intervention, then and now, has on the Israeli economy. I may go on to say that from that day on, I never talked with prime minister Begin. That was the only meeting I ever had with him.

Q: How about with the minister of finance? A: I talked with the minister of finance when I was in Israel, and also

(Continued on opposite page)

The economic pages are edited by the Economic Editor of The Jerusalem Post, Shlomo Maoz

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CONDENSED BALANCE SHEET AS AT 30TH SEPTEMBER 1987*

(NIS thousands)

	30.9.1987 (Unaudited)	30.6.1987 (Audited)	31.12.1986 (Audited)		30.9.1987 (Unaudited)	30.6.1987 (Audited)	31.12.1986 (Audited)
ASSETS				LIABILITIES			
Cash on hand and deposits				Deposits from banks	622,036	579,309	655,869
with Bank of Israel	708,329	719,902	653,474	Deposits of the public	1,453,653	1,454,887	1,380,477
Deposits with banks	627,846	577,987	740,101	Deposits for the granting			
Bonds for investment	9,796	17,857	18,237	of loans	184,685	196,128	187,504
Shares for investment	3,728	1,274	1,210	Non-convertible Capital Note	8,047	8,236	8,258
Securities for trading	695	755	448	Other liabilities	15,761	11,525	12,446
Loans to the Government	139,248	160,690	163,479	Total liabilities	2,284,182	2,250,085	2,244,554
Loans to the public	868,733	831,404	709,084	Shareholders' equity	103,254	96,001	81,449
Bank premises and equipment	20,266	20,626	22,130				
Other assets	10,795	15,560	17,840				
	2,387,436	2,346,086	2,326,003		2,387,436	2,346,086	2,326,003

CONDENSED STATEMENT OF PROFIT AND LOSS FOR THE PERIOD ENDED 30.9.1987*

Unaudited (NIS thousands)

Operating profit before taxation	47,343
Provision for taxation	25,591
Operating profit after taxation	21,752
The bank's equity in profit (loss) of subsidiaries and affiliates, net	53
Net profit for the period	21,805

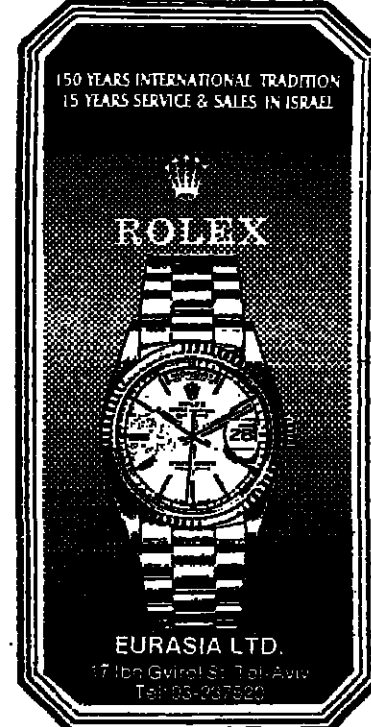
CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE PERIOD ENDED 30.9.1987*

Unaudited (NIS thousands)

	Share Capital	Surplus
Balance at the beginning of period	66,438	15,011
Net profit for the period		21,805
Balance at end of period	66,438	36,816

* Adjusted for the effect of inflation based on the September 1987 index

The financial statements were prepared in accordance with the same accounting principles applied in the preparation of the audited annual financial statements as at 31.12.1986.



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